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# CORPORATIONS AND PUBLIC WELFARE<sup>s</sup>

ADDRESSES

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## CONTENTS.

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### **PART I. THE CONTROL OF PUBLIC-SERVICE CORPORATIONS.**

	PAGE
<i>Introductory: THE POSSIBILITIES AND LIMITATIONS OF MUNICIPAL CONTROL.</i> Professor L. S. Rowe, University of Pennsylvania . . . . .	7
<b>FINANCIAL CONTROL: CAPITALIZATION, METHODS OF ACCOUNTING AND TAXATION.</b> Honorable Bird S. Coler, Comptroller, New York City . . . . .	21
<b>DIFFICULTIES OF CONTROL AS ILLUSTRATED IN THE HISTORY OF GAS COMPANIES.</b> Professor John H. Gray, Northwestern University, Evanston, Illinois . . . . .	31
<b>REGULATION OF COST AND QUALITY OF SERVICE AS ILLUSTRATED BY STREET RAILWAY COMPANIES.</b> Professor F. W. Speirs, Philadelphia . . . . .	61

### **PART II. INFLUENCE OF CORPORATIONS ON POLITICAL LIFE.**

The Honorable William Lindsay, United States Senator from Kentucky . . . . .	77
--	----

### **PART III. COMBINATION OF CAPITAL AS A FACTOR IN INDUSTRIAL PROGRESS.**

INDUSTRIALS AS INVESTMENTS FOR SMALL CAPITAL. James E. Dill, Esq. . . . .	107
THE EVOLUTION OF MERCANTILE BUSINESS. Honorable John Wanamaker . . . . .	121
THE INTEREST OF LABOR IN THE ECONOMIES OF RAILROAD CONSOLIDATION. William H. Baldwin, Jr., President of Long Island Railroad . . . . .	137

**PART IV. THE FUTURE OF PROTECTION.**

	PAGE
THE INDUSTRIAL ASCENDENCY OF THE UNITED STATES. The Honorable Nelson W. Aldrich, United States Senator from Rhode Island . . . . .	153
THE TARIFF POLICY OF OUR NEW POSSESSIONS. The Hon- orable Robert P. Porter . . . . .	169
THE NEXT STEPS IN TARIFF REFORM. Charles R. Miller, Esq., Editor-in-Chief, New York <i>Times</i> . . . . .	185

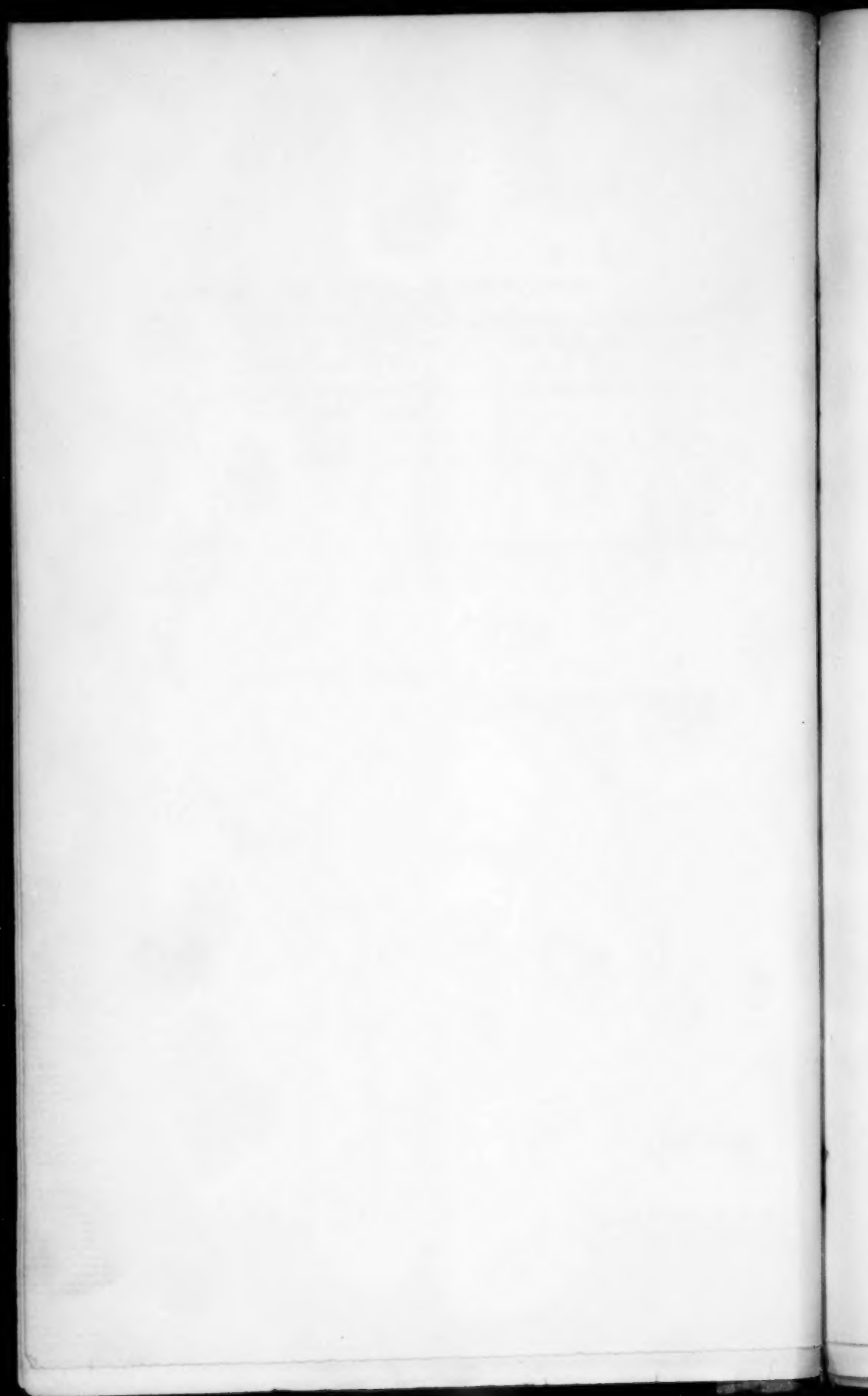
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REPORT OF THE ACADEMY COMMITTEE ON MEETINGS . .	203
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I

THE CONTROL OF PUBLIC SERVICE  
CORPORATIONS ∴ ∴ ∴ ∴ ∴ ∴



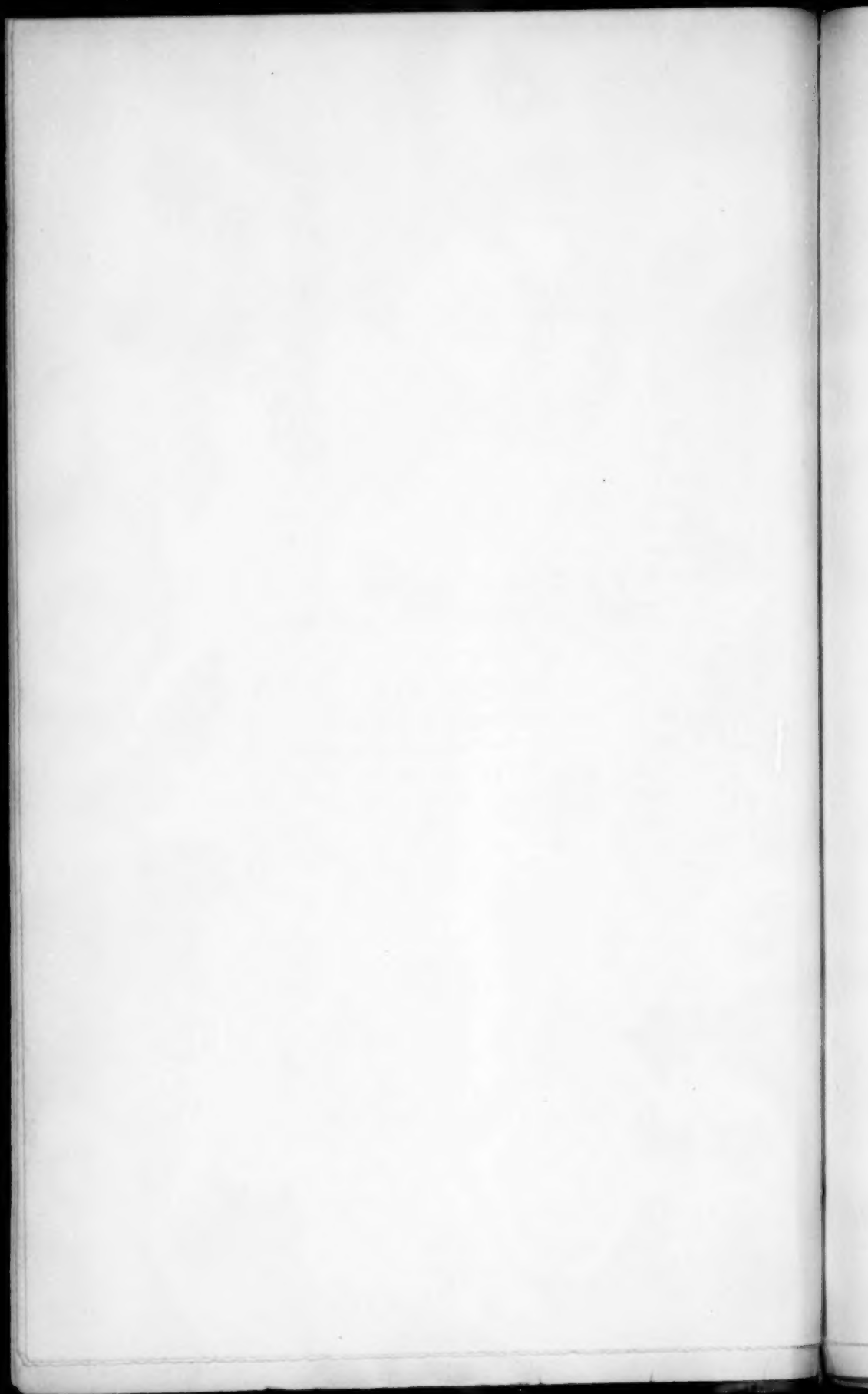
THE POSSIBILITIES AND LIMITA-  
TIONS OF MUNICIPAL CONTROL

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*INTRODUCTORY*

BY PROFESSOR L. S. ROWE

UNIVERSITY OF PENNSYLVANIA



## THE POSSIBILITIES AND LIMITATIONS OF MUNICIPAL CONTROL.

### INTRODUCTORY ADDRESS.

Professor L. S. ROWE, University of Pennsylvania.

The duty of introducing the topic of this afternoon's session—"The Control of Public-Service Corporations"—demands that I should limit myself to the general principles involved rather than enter upon a detailed analysis of any one of the many phases of the question. The rapid changes in municipal policy during recent years makes this task all the easier, for in these changes the possibilities and limitations of municipal control are clearly reflected.

After a long and uninterrupted period of reckless franchise grants, we have suddenly awakened to the inconveniences of the situation. The increasing burden of local taxation has turned attention to the value of these franchises, and has given rise to a very definite demand that they be made a more important factor in the income account of the municipality. But here the opinion of the community divides, one group favoring a system which will compel the companies operating under the franchises to give a larger return for the privileges enjoyed, the other advocating direct municipal operation of the whole class of public-service industries. Widely divergent as these views are, they have one trait in common—to secure a larger return to the public treasury and thus relieve the burden of taxation. This view of the relation of the public-service industries to the public has been greatly strengthened by glowing accounts of European municipalities, where, we are assured, taxes are gradually disappearing because of a careful husbanding of public right and public property. We are even told that Glasgow is able to dispense with taxation and is now supporting herself with the proceeds of municipal public works.

The truth or falsity of these statements is not a matter with which we are concerned in the present connection, although I may say in passing that they are very far from the actual situation. My only purpose in citing them is to show the phase of the question which arouses the greatest interest in the American public.

But is this the only, is it even the most important, aspect of the problem? In dealing with corporations enjoying public franchises should the control of the municipality have as its main end the exacting of the largest possible pecuniary return for the privileges granted? If this be the case, the form of control will be exclusively financial and will end at the point at which the maximum money sum is assured. The tendency toward this interpretation is so strong, and, as I view the situation, so completely out of harmony with the best interests of the community that, unless speedily checked, the growing body of opinion in this field of municipal affairs is likely to be turned in the wrong direction.

To explain this attitude we must look to one of the peculiarities of American institutional growth. In no other country has there been so complete a differentiation between the political life of the community on the one hand, and its social and industrial activity on the other. We fail to distinguish between the "city" and the "municipality" and constantly reason as if the interests to be safeguarded are those of the public authority and the public treasury rather than those of the body of citizens considered as members of the community. In emphasizing the interest of the government, *quâ* government, we lose sight of the interests of the citizen. To such a point has this been carried that questions of governmental power are viewed exclusively as political rather than as economic and social problems. No attempt is made to bring governmental action into organic relation with the political and social life of the community. When, therefore, the problem of control over public-service corporations arises, the only question seems to be: "How

much can the public treasury obtain from such corporations?"

This narrow and one-sided view of the situation fails to take into account the important part which the street railway, water and gas service play in the daily life of the community. Under ordinary circumstances a reduction in taxation of five mills, or even of five cents per hundred dollars valuation, means little or nothing to the welfare of the community, no matter how cordially welcomed by the taxpayer. On the other hand, a reduction of street railway fares from six to five or four cents, or what is even more important, a change in motor power, which increases the rate of speed from seven to fifteen miles an hour, means a revolution in housing conditions and a strengthening of the industrial efficiency of the whole community. Similarly, a reduction in the price of gas from one dollar to fifty cents per thousand cubic feet may work far-reaching changes in industry, giving a new lease of life to the small producer through the introduction of the gas engine. The substitution of the gas for the coal-stove, which a low price of gas makes possible, is certain to work radical changes in the housekeeping problem. In a city like Glasgow, for instance, where under municipal operation the price of gas has been reduced with each advance in the economy of production, the diet of the laboring classes has undergone radical changes directly traceable to the economical cooking facilities thus offered. In Paris, on the other hand, where the public authority has been mainly interested in the annual return to the public treasury, petroleum still remains the illuminant of the poorer class and the variety of food is limited by the expensiveness of cooking. I take these instances from European cities because in the United States, owing to the higher rate of wages, the pressure has not been so keenly felt. We have hardly begun to realize the significance of a low price of gas to the social well-being of the community. The same is true of the water and street railway services.

When, therefore, we examine the status of the class of corporations under consideration, not merely in relation to the city government as such, but also in their broader relation to the interest and welfare of the whole community viewed as a group of consumers, the purely financial aspects of the question assume a position of secondary importance. We then see that the real test of efficient municipal control is to be found in the cost and quality of service rather than in the money return for the franchises granted.

The moment the interest of the consumer rather than that of the public treasury enters as the guiding principle in the control of the public-service corporations, it becomes necessary to examine each service with reference to the social and economic welfare of the community in order to determine where the emphasis of control is to be laid. In the gas service, for instance, the public is primarily interested in a low cost of service in order to utilize, to the fullest extent, the varied possibilities of gas as an illuminant, motor power and for purposes of heating and cooking. With the recent improvements in the mechanism of illumination we are rapidly approaching a point at which the candle power of the gas will be of secondary importance.

In the street railway service, on the other hand, rapidity of transportation, combined with comfort and convenience, are the primary requisites. With the higher rate of wages prevailing in American cities low fares must be placed second to the above requirements, and last of all comes the money payment to the city treasury for the privileges granted to the corporations performing the service. In other words, given the conditions of life in American communities, the emphasis must be laid on rapidity and comfort of service.

It may be that in European cities the most important end to be attained is cheapness of service, but this is simply another illustration of the fact that the question of control must be settled with reference to the peculiar needs of each locality. Given the antagonism to the tenement house



system characteristics of most American communities and the larger area covered by our cities which is the direct result of the demand for individual homes; rapidity of transportation is indispensable and must be assured at any cost.

A comparison of the experience of American and European—particularly Continental municipalities in dealing with public-service corporations throws considerable light on the contrast between the two points of view above outlined. From the earliest establishment of a water, gas and street railway service, we find the authorities of European cities on the alert to obtain for the city the largest possible money return for privileges granted. Cheapness of service occupied a position of secondary importance, while efficiency, rapidity and convenience played but an unimportant part in determining the character of municipal control. The result has been that while the public-service corporations have been making large contributions to the public treasury, they have failed to make the improvements necessary to efficiency of service. The heavy fixed charges to which they were subjected combined with the low cost of service imposed upon them, discouraged experimentation with new methods and made the companies reluctant to make any radical changes involving the investment of large quantities of capital. The primitive system of urban transportation, which until within the last few years has been inflicted upon the population of European cities, has worked greater harm to the health, social condition and industrial efficiency of the population than can be calculated in a money sum. The evils of overcrowding, of which the unsatisfactory housing conditions are the most conspicuous, are directly traceable to the lack of a well-developed system of urban communication. It is a significant fact that in European cities the most efficient service is had through direct municipal operation, where considerations other than pecuniary profit are given due weight.

This sharp and striking contrast between European and American methods of granting franchises and of controlling public-service corporations contains a number of important lessons, both positive and negative. If we view the problem as a relationship between the corporations offering the service and the mass of consumers, we are forced to recognize that the absence of provisions for adequate pecuniary return for the privileges granted has not been without incidental benefit to the community. It has fostered a readiness to introduce improvements demanding enormous outlays of capital, to welcome the application of new motor forces, to experiment with the one-fare system; in short, to take risks which in the long run have proved great public benefits. It is true that so far as the corporations were concerned, these public benefits were incidental to the larger profits which they were seeking, but they remain none the less public benefits.

It is very far from my purpose to establish the rule that the fewer the conditions placed upon a franchise grant the greater will be the benefit to the community, but rather to enforce the principle that the conditions prescribed should relate, first, to the quality of the service, secondly, to its cost, and only after these requirements have been fulfilled should the money payment to the city be considered.

With the emphasis laid upon these elements, the problem of public control is simplified rather than complicated. Both as to quality and cost of service the community can readily form a correct opinion. The population is not dependent upon the municipal authorities for the data from which to form a judgment. Nor is there the same possibility of evasion, which is a constant menace to the effectiveness of purely financial control. There is hardly a city in the United States which has been able to secure for itself the stipulated participation in the profits of these companies. Whenever an actual money payment is in question, the temptation to evade it through the use of insidious corrupting influences

seems irresistible. In this field our administrative machinery is unable to cope with corporate power.

None of the recommendations thus outlined will dispense with the necessity of a careful control over the financial and administrative methods of these public-service corporations. This phase of the question will be so fully developed by the speakers who are to follow that I do not feel it necessary to say more than that the enforcement of this form of control will aid materially in demanding the kind of service which the community has a right to expect. At the present time we must accept without further question the statements of the officials of such companies as to the limit of concession which they are able to make. In order to make control effective, the public authority must be in a position to inform itself by independent examination.

This brings us to one phase of corporate financiering, the control of which constitutes the first step towards an effective supervision over this class of corporations, viz., the operations incidental to leasing, combination and consolidation. Given our system of constitutional protection to property rights, it is evident that if the public-service corporations are to be permitted to combine on such terms as they may see fit to adopt, the problem of control is greatly complicated owing to the capitalization of future profits which usually accompanies consolidation. Under such circumstances it often becomes impossible for a company to meet the legitimate demands of the public without doing serious injustice to the purchasers of the stock representing the inflated capitalization, and, what is even more important, the public authority is unable to force any concessions owing to the Fourteenth Amendment, which forbids a state—or any of its agents—from depriving a person of property without due process of law.

We are here face to face with one of the most difficult aspects of the question—the problem of maintaining public control

throughout the process of consolidation and after such consolidation has been effected.

As long as public opinion remained unalterably opposed to combinations between public-service corporations it was almost, if not quite impossible to devise or enforce any system of control. Legislation was confined, in the main, to strongly worded prohibitions which were evaded with ease and which contributed much to foster the feeling of mutual distrust between the public and the corporations. During recent years, however, there has been a marked movement of opinion towards a recognition of the fact that in this class of industries free competition is no guarantor either of cost or quality of service, and that the possibilities of control are strengthened by the unity of management which accompanies monopoly. We are now beginning to see that many of the most serious difficulties of control would have been avoided if, from the very start, we had recognized the advantages of monopoly instead of attempting the hopeless task of establishing a form of free competition which could not, in the nature of things, be maintained. The practical question before us at present is to facilitate such combination, maintaining at the same time public supervision over the conditions under which such combination is effected. As has already been pointed out, to permit the consolidating companies to capitalize future profits, binds the hands of the public authorities in their efforts to obtain greater efficiency or lower cost of service. If this danger be avoided, a conditional monopoly will offer the best means of improving the service. The municipality can make its control intensive instead of extensive, it can always hold a definite and relatively small number of persons responsible for the kind of service offered to the public, and finally, it can the more readily enforce a strict control over the finances of the corporation.

The enjoyment of monopoly during good behavior places the company in a position to take larger risks than would

be the case if the field were divided amongst a dozen or more competitors. Experimentation with new methods can only be safely carried on when the capital at the disposal of the concern is so large as to make success or failure a matter of indifference to its financial stability. This is particularly true of those corporations the nature of whose business enables them to experiment on definite portions of their plant without involving the whole. Furthermore, the advantage of co-ordinating the different parts of the street railway, gas or water system is evident at a glance. The benefit derived by the public is not so much in the economy of administration and operation thus effected as in the possibility of more readily adjusting the service to the changing needs of the community.

From this analysis of the possibilities of municipal control, it is clear where the emphasis must be laid if these services are to contribute to the welfare of the community within the full measure of their possibilities. As we advance from a narrower to a broader concept of government, as we begin more fully to appreciate the far-reaching effect of slight changes in quality and cost of service upon the industrial efficiency and social well-being of the community, we will be more ready to give due weight to the various elements involved in the control over public-service corporations.

The foregoing discussion of the possibilities of municipal control has given a clue to some of the limitations and dangers to which such control is subjected. To complete the analysis we must examine some recent industrial changes which have already introduced profound modifications into the problem of municipal control, and which bid fair to bring about changes of even greater importance in the near future.

We have become so accustomed to regard the gas, water and street railway services as purely local in character, that the adaptation of our administrative machinery to the new

conditions under which these industries are now carried on is extremely slow and is attended with great difficulty. The forces at work in destroying the local character of these industries are increasing in strength at a rate which must soon compel a readjustment of the system of control.

The first of these influences is the rapid growth of the suburban districts of our larger cities, offering profitable opportunity for the extension of the gas, water and street railway services beyond the limits of the city. With every such extension the economy of production and distribution has been increased and has finally led to the total disregard of municipal, county or township lines. As regards the water service this movement has been further strengthened by the necessity of seeking sources of supply at great distances from the distributing centers. The economy of supplying all the localities along the route dictates the inclusion of a considerable section of a state within the area of exploitation of a single company.

In the case of the street railways, the change in motor power from horse to electricity has completely revolutionized the service; furnishing the most striking instance of the changed relation of the municipality to this class of industries. What was once a purely local means of transportation has already become inter-urban and will soon constitute a network of communication throughout the various states.

As a direct result of these changes two important questions present themselves:

First, Can the municipality still be regarded as the effective unit of control over this class of corporations? and

Secondly, Can the state permit the municipality to fix the conditions under which these industries may be carried on?

One of the first principles of governmental control over industry is that the unit of control must not be inferior to the unit of exploitation; that is to say, the power of the public authority must, at least, be coterminous with the field of operation of the industry. This has ceased to be



the case with the street railway companies, and, to a certain degree, with the water and gas companies. Just as the difficulties of state control over corporations, particularly transportation companies doing an interstate business forced us into national control, so the extension of the municipal public-service industries beyond the limits of the municipality will force the substitution of some larger administrative unit—possibly the state itself—as the controlling authority.

The ease with which local control is evaded by companies operating one system through a number of municipalities immediately suggests itself as the most important argument in favor of a change in the form of control. All that is necessary is a skillful manipulation of accounts by which those portions of a street railway line or water plant which happen to be under the supervision of the most troublesome local authorities are burdened with an undue proportion of fixed charges and operating expenses. When, as in Massachusetts, it is not uncommon for a street railway company to operate under franchises from ten, and in one case from nineteen different towns, independent municipal control is out of the question. The state railroad commission is the recognition in law of this condition of fact.

The dangers involved in independent municipal control are not confined, however, to the mere question of corporate supervision but include the efficiency of the service as well. In fact this is by far the most important aspect of the question. The traditions of local self-government in which we have been trained lead us to regard municipal control over the granting of franchises with the same unquestioned assurance as the ownership of the public highways, in fact the former as part of and incident to the latter.

The harmony between these two powers remained undisturbed as long as the effects of local control did not extend beyond the limits of the municipality. With the expansion of the public-service industries, however, an entirely new

situation confronts us. Territorial districts larger than the municipality, yes, even the state itself, have a real, a vital interest in the conditions of a franchise grant. The state can no more permit one or two towns to hold up a great system of public transportation or the inter-urban distribution of water or gas, than it can tolerate the blocking of great public improvements by individual property owners.

Nor is this difficulty likely to disappear. Municipalities are being subjected to increasing temptations to exploit their strategic position by placing extortionate burdens upon public service companies. Here again the tendency to lay exclusive emphasis upon the money return for the franchises, rather than upon quality of service, increases the danger of conflict between the interests of the local treasury and the community at large. The only possible outcome of the situation will be that the conditions of franchise grants by local authorities will be subject to review by a state board, or that the state law will set the terms or at least the limits of local authority.

To sum up briefly the conclusions of this introductory discussion: An attempt has been made to show that the municipal public service industries must be considered in their relation to the industrial progress and social welfare of the community and that the relation between the municipality and the corporations performing these services must be adjusted with this end in view. Pecuniary return must be subordinated to quality and cost of service. Keeping both of these in view, it is evident that the old opposition to combination and monopoly in this class of services is out of harmony with the best interests of the community.

Finally, the changes in the conditions of these industries themselves has threatened, and promise still further to undermine the efficiency of municipal control. In the readjustment which must soon be made, municipal control must be subordinated to the larger interests of the state.



THE CONTROL OF PUBLIC SERVICE CORPORATIONS. FINANCIAL CONTROL—CAPITALIZATION ∴ ∴ ∴.

BY BIRD S. COLER,

COMPTROLLER OF THE CITY OF NEW YORK



## THE CONTROL OF PUBLIC SERVICE CORPORATIONS. FINANCIAL CONTROL— CAPITALIZATION.

Address of BIRD S. COLER, Comptroller of the City of New York.

Overcapitalization of corporations is frequently resorted to as a means to cover up exorbitant profits. Parsons, in his admirable book entitled "The City for the People," defines overcapitalization as "the twin sister of extortion," and says that "both arise naturally from the desire to squeeze as much wealth as possible out of the people and keep the people quiet during the process. Get a franchise, issue a lot of stock, keep enough of it to retain control of the enterprise, sell the rest, build your plant, bond it for all it is worth and recoup all you put into the concern, then double up the stock and keep adding to it as the business grows, so that an actual profit of 20, 50 or 100 per cent on the real investment will be only 5 or 6 or 7 per cent on the bonds and stock, and so *appear on the face of the accounts* to be only a reasonable profit, not likely to arouse opposition or set in motion the legislative or administrative machinery for the reduction of the rates—this is the normal monopolistic plan."

In this connection it may be mentioned that a special committee of the Assembly of the State of New York appointed in 1895 recommended bills limiting capitalization of public service companies to one and one-half times the cost of construction, and providing for decreased charges for service whenever 5 per cent on capital was earned.

The capitalization of public service corporations becomes of great moment to the municipality exercising control where the cash return to the municipality is based upon the net earnings of the corporation. Fortunately we have few instances of this in our municipality, and every case is constant source of trouble to the city.

The Dry Dock, East Broadway and Battery Railroad, which pays to the city of New York 5 per cent on net proceeds of the Grand Street branch only, and a portion of the system of the Manhattan Elevated Railroad, which is chargeable with 5 per cent of its net receipts, are the only corporations which pay a franchise tax based upon net profits. Others pay a certain percentage of their gross receipts, which under the Act of 1884, amounts to 3 per cent of the gross receipts for the first five years and 5 per cent thereafter in cities with a population of two hundred and fifty thousand or over. In smaller towns the local authorities may require a maximum of 3 per cent of gross receipts. Still others pay a license fee of fifty or twenty-five dollars per car, and in a few cases charters were granted by the legislature without compensation, or providing for a small fixed payment, as in the case of the Houston Street, West Street and Pavonia Ferry, where one thousand dollars per annum is the sum stipulated, although this company also pays car fees of fifty dollars per car.

The management of ferries belongs to the Department of Docks and Ferries, subject to the supervisory control of the Commissioners of the Sinking Fund, who must lease them on competitive bids for not over ten years at a time. Some of our ferries pay as franchise tax, certain percentages of their gross receipts, others fixed sums besides wharf rent. The compensation for other privileges granted by the city is variously arranged; pipe line franchises being leased at fixed rentals, while gas and steam companies pay either a certain percentage on gross revenue obtained from all public and private customers, or a small amount per foot for each lineal foot of mains and pipes laid. This latter provision for compensation, in the case of the New York Steam Company, is limited so that when \$150,000 has been paid in by the company to the city, the franchise shall have been considered to be paid in full.

In the case of the Consolidated Telegraph and Electrical

Subway Company and the Empire City Subway Company, the company is obligated to pay to the city treasury all its net earnings in excess of 10 per cent cumulative upon the actual cash capital invested by it in providing, constructing and equipping its subways. In connection with this company, it is interesting to note that its sworn returns for the years 1893, 1894, 1895 and 1896 show that in every instance the net income is less than  $2\frac{1}{2}$  per cent of the cost of construction as stated. As the company is entitled to 10 per cent cumulative upon its cash capital invested, the chance of the city obtaining something in return for the franchise given is indeed remote. The compensation for street vault privileges is usually fixed at a certain price per square foot of space occupied. It appears, therefore, that in this city there is a great variety in the method of requiring compensation for franchises granted.

If the policy of basing the city's revenue upon the entire gross receipts of public service corporations could be universally adopted and adhered to, there would seem to be little necessity for anxiety or concern in regard to the question of capitalization, excepting where a readjustment of percentages is deemed necessary, or municipal ownership of these corporations is proposed.

Touching this matter of municipal ownership in connection with the subject of capitalization, it is interesting to note that some of the early charters contain provisions allowing the city of New York to acquire roads at their actual cost after a certain time. In such cases it becomes an interesting question how the actual cost is to be ascertained. It certainly should not be determined by the promulgated capital of the concern.

Mayor Grace in vetoing the franchises of the cable railway in 1886, stated that in 1884 the capital of the surface railways in operation was \$15,707,753, and the bonded debt, \$11,266,665; that in that year  $14\frac{1}{2}$  per cent dividends on the average had been paid on the capital and 6 8-10 per cent

interest on the bonds, and he declared it more than a fair assumption to place the actual cost of their construction and equipment at the aggregate of their bonded indebtedness, so that on this basis the dividends and interest paid would represent a return of 27 per cent on the bona fide investment.

The Supreme Court of the United States (148 U. S., pp. 312, 327), in referring to the subject of determining the amount of capitalization in order to ascertain the fair valuation of a plant, the purchase of which is contemplated, made the following declaration: "The value of property, generally speaking, is determined by its productiveness and profits which the use brings to the owner; the value is not determined by the mere cost of construction." In another case in Pennsylvania (144 Pa. St. 365, 374 and 375), decided in 1891, the court said: "Value is to be ascertained not only by the cost of the structure, but also by the value of the franchise. The value of the company's franchise depends largely on its earning capacity."

By the Massachusetts Lighting Law, which provides for municipal purchase of gas and electric plants, the price of the property "shall be its market value for the purposes of its use (no portion of such plant to be estimated, however, at less than its fair market value for any other purpose), including as an element of value the earning capacity of such plant based upon the actual earnings being derived from such use at the time of the final vote. Such value shall be estimated without enhancement on account of future earning capacity or good will or of exclusive privileges derived from rights in the public streets."

The Hon. Henry Winn, a high authority, views this matter in a different light. He gives it as his opinion that the people should pay only for what they get in tangible property and private rights not derived free from the public, and not for the franchise. I recall the following quotation from Bemis' "Municipal Monopolies": "The question of compensation for franchises is one of the most difficult in

the whole range of municipal laws. Happy is the city or town that can solve the problem by keeping its franchises from the start or by putting conditions in the franchise grants securing fair rates and good services and providing that after ten, twenty or thirty years the whole property, franchise and physical plant, in good condition, shall become public property without further compensation." Durand, in his work on the Finances of New York City, calls attention to the fact that the experience of foreign cities with railways and lighting plants, and especially the success of municipal ownership of these enterprises, has been largely cited by the advocates of reform. In Berlin, for instance, the Consolidated Railway Company, besides having made large cash payments for the original franchises, pays  $8\frac{1}{2}$  per cent of its gross receipts, reimburses the city for paving and cleaning between its tracks, and in 1911 the entire system will become the property of the city without cost.

In many other continental cities a similar provision for reversion of the tracks to the public exists. The absurd practice of granting perpetual franchises is almost unknown. The same is true in Great Britain. Manchester, Birmingham and a large number of other cities own the tracks and lease them to private companies at very favorable terms, while half a dozen or more cities, the most important being Glasgow and Bradford, actually operate the systems by municipal employes and with marked success. Many of the English cities alike own and operate lighting plants, and though furnishing service at rates much lower than are common, would succeed in earning a handsome net revenue. The fact cannot be overlooked, however, that the conditions of employment in the civil service of these cities is very different from what exists in this country, and that it is far more favorable to the practical success of operation of business enterprises by municipalities. The city of New York would seem to have achieved a large measure of success in respect to conserving to the public the value of public



franchises in its scheme for the construction of the great subway of the Rapid Transit Railroad.

And now let me say a few words as to methods of accounting. As has been stated before, so long as public service corporations pay to municipalities granting them their franchises a compensation based upon the entire gross receipts, the municipality need not concern itself with the matter of the company's capitalization, but it oftentimes happens that revaluations of these privileges become necessary, and in these days of municipal reform and progress, the acquisition by purchase by the municipality of the privileges and plant is likely at any time to be carried into effect.

It becomes then, a matter of importance that the books of account of all public service corporations should contain a true, perfect and complete record of their finances, so that reliable statements of financial status can easily be extracted therefrom. As a means to this most desirable end, I am inclined to favor, first—uniformity of accounting methods to be prescribed by the comptroller for corporations engaged in the same business as, for instance, street railroads, gas and electric illuminating companies, etc.; and, second—that these books of account should, at all reasonable times, be open to the inspection of the comptroller or his representative. While I favor this restriction upon public service corporations, I would go further and welcome legislation which would provide for financial statements certified by disinterested accountants and a strict official scrutiny of the accounts of all corporations, the stock and bonds of which are offered as an investment to the general public.

Speaking broadly, the books should be so kept that revenue of every kind and nature, and the sources thereof, will be clearly shown, and that disbursements will be classified as operating or capital expenditures. A sharp distinction should also be made between extensions of plant and renewals, replacements and ordinary repairs. Too often is it the case that expenditures for renewals of plant are added to



the "plant account," with absolutely no deduction for loss, nor any allowance for deterioration. True inventories frequently give the lie to apparently well kept book accounts.

How shall the city be compensated for these valuable franchises? As to railroads, our own state law provides for a sale at auction to the bidder offering the highest percentage of gross receipts, in no case to be less than the three and five per cent minimum previously fixed, and in some of our ferry leases the minimum sum to which these gross receipt percentages shall amount to, is fixed. In some respects, this method of taxation is desirable because it is easy of computation and proof, and is fair alike to the public corporation and to the municipality itself.

In the State of New York there is a genuine and rapidly growing popular interest in these matters, which was responsible for the enactment of the Franchise Tax Law by the legislature in 1899. This law which is designed to subject to annual taxation the full value of the franchises of corporations making use of the streets and avenues of cities, is far more sweeping in its provisions than any of the laws heretofore enacted, which provide for levying contributions based on either gross or net receipts or earning power on any form. If it is found to operate satisfactorily it will undoubtedly supplant the latter method of taxing franchises. The law itself provides that corporations subject to this franchise tax shall be entitled to deductions for amounts paid locally by way of percentages on earnings, etc. It is manifest that if this substitution in the method of assessment should become general, the whole question now under consideration would become of merely academic interest, and the collection of taxes on franchises would be immeasurably simplified.



THE DIFFICULTIES OF CONTROL  
AS ILLUSTRATED IN THE HIS-  
TORY OF GAS COMPANIES ∴ ∴

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## THE DIFFICULTIES OF CONTROL AS ILLUSTRATED IN THE HISTORY OF GAS COMPANIES.

Professor JOHN H. GRAY, Northwestern University.

One of the most striking things in the political, industrial, and administrative development in America, is the fact that conditions grow up, develop, and press for a solution long before the most advanced thinker has worked out any theory of how to deal with them.

We are in an age of marked increase and concentration of machinery and industry under corporate management. So long as we expect to make material progress, we must apparently not only expect this movement to continue, but also to increase in intensity. The size, too, of the individual corporation is likely to grow.

We have discovered no other form of voluntary organization capable of carrying the world's progress forward. Whatever may be said of government socialism as a remedy, it is not likely, in our day, to drive all the public-service corporations from the field, or even to do away with the particular kind of corporation now under discussion.

If, then, the privately owned corporations have come to stay, what can we do to lessen and curb the unmistakable evils connected with them, at the same time that we render more satisfactory the service furnished by them, and encourage private enterprise?

Let us confine our attention at present to the gas industry. In the first place, we are fortunate in the kind of corporation selected. Whether we consider the question historically or theoretically, the incorporated gas company presents almost every interesting phase of what is known as the corporation problem.

Artificial illuminating gas is now about to enter upon its second century. Within recent years, three important competitors have entered the field; namely, petroleum, natural gas, and electricity. Nevertheless, artificial gas remains to-day, for the great majority of city dwellers, the most widely-used, the cheapest, and the safest means of both public and private lighting.

The supply of this service is recognized to-day by all competent students, if not by all voters and legislators, as one of the most perfect types of what are known as natural monopolies. The gas company usually requires, in addition to a franchise, a special local license for the use of the streets. When installed, the corporation comes perhaps into closer contact with both the individual consumer and the municipal government than almost any other corporation enjoying special privileges in the streets. Both the manufacture and distribution of gas are highly technical operations, requiring a considerable degree of skill. Of the cost or methods of these operations, the average consumer, under present conditions, can know nothing. The fluctuations in the price of materials, and the constant improvements in methods and processes of manufacture add to this difficulty. In fact, to say nothing of cost, the consumer is unable to determine for himself even the quality, purity, and safety of the article offered him. Some idea of the rapidity and wide-reaching influence of these changes can be seen if we recall the fact that within a period of about twenty years, one complete revolution in method of manufacture (involving almost a complete change in major and minor materials) has been wrought; while within the last five years changes have been introduced which those in control of the processes, believe will, in the immediate future, work a still greater revolution than that brought about by the introduction of water gas. This process involves a return to bituminous coal as the chief material, but by a change of method the gas becomes no longer the chief product or aim of the operation, but

merely the joint, and minor, or by-product, of a coke manufacturing plant.

It is, in my opinion, altogether too early to predict the outcome of the attempt to distribute coke-oven gas over great areas from a central plant. But we should not lose sight of the fact that the venture is in the hands of men powerful—both intellectually and financially; and, that the experiment has already gone far enough to call forth a large investment of fixed capital. This investment has, of course, already deeply affected the securities of the old companies in that vicinity; while the pressure for privileges for the coke-oven experiment, now in progress at Everett, caused the legislature of conservative Massachusetts to reverse entirely the policy of the state in regard to public-service corporations.

If anything further were necessary to prove that the gas companies are typical of the problems now uppermost in the public mind, a mere reference to the fact that the Bay State Gas Company of Delaware—of which more hereafter—a financial company organized chiefly to recapitalize the surplus of the Boston companies, has authorized an increase of its nominal capital, within a short time, to \$1,000,000,000—the largest nominal capitalization ever reached in the whole history of joint-stock companies.

So long as such changes in the industry as have taken place in the last two decades are in progress, or are even seriously anticipated, control of the companies, while all the more imperative, is doubly difficult to obtain with our weak condition of government. For, until the honest and well-meaning, but uninformed, voter has thoroughly discarded his instinctive faith in competition in this industry, any shrewd and unscrupulous manipulator who can get possession of patents for supposed improvements, can blackmail existing companies. Any refusal on the part of the old company to pay the tribute demanded by the holders of these patents, whether the patents promise to be useful or



not, means, in the present condition of public opinion, simply the introduction of a competing company, with its inevitable burdens for the consumers. This is all the more true so long as public opinion can be so easily manipulated.

So far a company has had to count on frequent attacks of this kind from the enemy, and has tried to adjust its income to meet them. But to do this it is necessary for it to keep all of its affairs as secret as does an army in the face of the enemy.

This is the key to the situation; and whatever policy of the state towards these corporations will tend most effectively to educate the voter as to the true nature of the companies and their business, is the best policy. It ought to be needless to say that until the average voter is much better informed in regard to the complexity and scientific needs of government and industry, public ownership will not bring about the desired results. It is safe to say that we have no governments to-day, state or local, capable of dealing satisfactorily with existing evils under any form of ownership or control, and that we shall have none until the mixed population of our cities realizes that non-partisanship, permanency of tenure, and high scientific qualification are requisite to successful administration of government, and especially to the successful public control of corporations.

This is perhaps as important a question as any with which the American public has ever had to deal. It should not escape observation that, in addition to being corporations liable to all the ills to which such bodies corporate are subject, these particular corporations operate almost entirely in the cities, and in a very important sense in the great cities, and thus touch the whole question of local and municipal government. It is doubtful if any considerable improvement in city government can be rationally looked for unless preceded by, or at least accompanied by, an improvement in the kind of corporation under consideration and in its relation to the public. The marvelous development of our cities



and our material resources in general, with the necessary haste and pressure accompanying it, has caused a general neglect of public affairs and, at the same time, has allowed evils in the management of public-service corporations to become truly gigantic before any unified body of knowledge grows up, and before public sentiment can be created and concentrated upon the evils. Above all, this haste, confusion, and absence of any principle of action has prevented effective public demand that the state should make any serious attempt to enforce even its common law right of supervision over corporations, or that it should reserve in the act of incorporation the additional statutory powers necessary to effectual control under modern complex conditions. Thus it is that the companies have in practice been able to maintain almost universal secrecy. They were allowed to run wild for so many years that they actually came to despise the state that created them, and to believe that this creator had no moral or legal power over them. If their beliefs did not go so far as this, their practice extended at least to a virtual denial of the right of the state to enforce even the rights expressly reserved to it by the charter. The managers went so far at one time as to claim that all knowledge of the affairs of the companies not only of right belonged exclusively to them, but also that such knowledge, if imparted, could have but little interest or value for any one else.

This chaotic condition lasted in the older states until after the Civil War, and has not yet disappeared from many portions of the country. There being during this period no popular or legislative appreciation of the monopolistic character of the industry, there is scarcely an important city in the United States—outside of Massachusetts, whose companies will receive special attention presently—in which rival gas companies have not, at one time or another, waged war upon one another. Partly from ignorance, partly from simple yielding to popular prejudice and clamor to catch

votes, the legislatures of all the more important states have, from time to time, passed prohibitory and penal statutes against the companies. But in no single instance, with the exception of Massachusetts already noted, has any effective machinery or organ of government been established to enforce the prohibitions and penalties. In many cases the language of the statutes was itself unintelligible. The principal ostensible object of the legislation of this period was to secure a safe gas, of good quality, at a fair price, by preventing excessive capitalization and excessive earnings. But all this legislation failed miserably because of the weakness, or complete lack, of administrative machinery to find what the companies were actually doing. Nothing was more common a generation ago, than for the charter to require a company to furnish a "good gas," or "as good gas" as some other company named, without any definition whatever of the phrase "a good gas" in the case of either company. From time to time the provision took a great variety of forms, all with the same vital weakness. No effective steps were taken in any of these cases to test the purity or illuminating power of the gas.

That corporations of all kinds were at that time simply treated as orphans and neglected by their parent, is proved by the fact that the legislatures of some of our best governed states often forfeited the charters of from 800 to 1,500<sup>1</sup> corporations by a single vote because the corporations could not be found by the tax assessor. Imagination cannot go so far as to suppose that a state exercises any effective control over corporations of whose very existence it is in doubt. Broadly speaking, the only supposed means of enforcing the provisions of the charter was by suits before the ordinary courts, brought either by individuals or by the attorney-general. For obvious reasons both means were impossible of practical application; and the prohibitions and penalties might as well have been left out of the statutes.

<sup>1</sup> See Mass. Sen. Doc. 37, 1892.

Such, in brief, is the attempt to settle the relation of the gas supply to the public in all the American states except Massachusetts, save in the few, and, for our present purpose, relatively unimportant attempts at public ownership. In Massachusetts the case is otherwise.

The development of the gas supply in Massachusetts<sup>1</sup> offers one of the most interesting and instructive chapters in the development of the modern business corporation. In the first place, the corporation laws of Massachusetts have, from the beginning of this form of doing business, been much more strict in both form and administration than those of any other of our states. Therefore, excessive capitalization was less frequent and corporate abuses, generally speaking, less flagrant than elsewhere. For this reason the field was less enticing to the unscrupulous promoter and blackmailer. Hence there were fewer competing companies with their train of evils. In fact, until the present generation, competition was prohibited by statute until companies exceeded a fixed rate of dividend for a considerable number of years. It is needless to say that under that law, whatever the possibilities, under the circumstances, companies found it expedient to keep formally within the legal rate of dividend.

With the then existing ideas of administration and control, the state was not in a position to compel from companies thus protected, good managements or efficient service. The result was, if not unlimited, at least irresponsible monopoly. For some occult reason unknown to me, but probably as a result of the general popular outcry then rife against monopolies, the legislature, in 1870, repealed this partial prohibition of competition.

For about a decade thereafter, the city government of Boston, which, according to the almost universal American custom of the time, had, under the authority of the legisla-

<sup>1</sup> A detailed history of the Boston gas supply has been published by the present writer in the "Quarterly Journal of Economics" for July and October, 1898, and April and November, 1899.

ture, power over the question of competition in that city, refused to admit a competing company.

But so soon as the holders of water-gas patents gained considerable confidence in the value of the new processes, circumstances suddenly changed. No American city council could possibly stand out against the attacks and allurements of the promoters of water-gas processes. There were in the early eighties not less than six companies supplying gas within the limits of Boston. The exact extent of the respective portions of the city in which these companies might act has never been determined. Some of the companies, beyond question, had rights throughout the whole city. Some had come into the city only by annexations of territory. But whatever their legal rights, two of them—the Charlestown and East Boston—are cut off from competing with the others by natural boundaries. The remaining companies had, in fact, never attempted to compete, but by agreement, each had confined itself to an exclusive portion of the field. The legislature has never specifically limited dividends of the gas companies of Massachusetts nor, save by implication in the Act of 1855, limiting competition, has it expressed itself on the question of what is a fair rate of dividend for a gas company to pay. But traditions are often stronger than statutes, and for many years there has been a well established tradition that a gas company is entitled to charge prices sufficient to keep up the company and pay an annual dividend of 10 per cent on the capital actually contributed by the stockholders. Any attempt within recent years to pay more than this regularly, or to water the stock, has always irritated the public and in a short time usually got the company into trouble.

About 1880, when the new processes began to press for admission, the population and wealth of Boston, with the consequent increased demand for gas, caused a genuine embarrassment of riches to the Boston company, and the other larger companies in Massachusetts. Companies so situated

had for years, with secrecy of affairs and traditional prices, been able, from their annual earnings, to pay a 10 per cent dividend, increase their surplus and meet all reasonable demands for extension of manufacturing plant and distributing system. Being restrained by specific statute as well as tradition from stock watering, and not wishing, for obvious reasons, to reduce the price of gas, they suffered from abundance of earnings.

The condition of the Boston company was typical of that of all the stronger companies in the state wherever the companies had not evaded the stock-watering statutes. The Boston company from 1877 to 1892—fifteen years—put into new investment out of its earnings an amount equal to 9 per cent of its share capital, annually, met all its legitimate expenses, and paid 10 per cent dividend. At the end of this period, the company, although probably greatly under-assessed, paid taxes on \$4,129,900, with a total capitalization of \$2,500,000. In like manner all the gas companies of the state, with a total capitalization (stock and bonds) of \$11,731,850, were valued for taxation at \$12,189,768.

What a bonanza this, for any one who could overcome or evade or violate with impunity, the laws against stock watering! If an irresponsible monopoly, without any discoverable motive for enterprise, could, by old processes, earn about 20 per cent per annum, what could not be accomplished by the introduction of the much more economical, and to the populace little known, water-gas processes, especially if, at the same time, all the companies about Boston could be combined!

Such was the stake for which Mr. J. Edward Addicks began to play shortly after 1880. He met first the hard fact that Massachusetts was opposed to the consolidation of gas companies and that the statute (of 1880) defining the purity of gas, effectually barred the use of water-gas. This, with the virtual limitation of dividend to 10 per cent, and the actual prohibition of stock watering, might have deterred a less determined spirit.



The methods by which Mr. Addicks organized, under the general law, the Bay State Gas Company, of Massachusetts, in 1884, with the maximum legal capital of \$500,000, forced an ordinance through the council allowing him to parallel all the gas pipes in Boston in spite of all opposition; and then, despite statutory prohibitions and traditions against stock and debt watering, bonded the company for nine times its share capital, awoke the old companies, if not the populace.

That the statute against water gas did not frighten Mr. Addicks in the least, was shown by the fact that he proceeded to spend millions of dollars in constructing a water-gas plant, just as if the statute had never been passed. The old companies, which had not been so shaken up for thirty years, suddenly changed their attitude entirely on the legality and expediency of state interferences, and consequently on the private character of their business. Almost with one accord the companies of the state, under the leadership of the Boston company, combined in seeking the protection of the state against threatened competition. The companies, in the face of such danger, were willing to submit to control in return for a guarantee against competition. This move was started against the Bay State Company before that company effected an entrance into Boston. But Mr. Addicks had his forces well in hand, and got his ordinance, before the act creating the gas commission<sup>1</sup> went into force in June, 1885.

As the circumstances under which this commission was created were extraordinary, so the powers granted it were the most plenary ever given over any industry to any commission in this country.

Mr. Addicks, after many vain attempts to get legislative authority to consolidate all the companies in Boston and vicinity, organized a syndicate, bought nearly all the shares of the Boston, South Boston, and Roxbury companies, put

<sup>1</sup> The act is entitled "An act to create a board of gas commissioners." For the sake of brevity, I shall refer to the board as the gas commission.

these shares and those of the Bay State Company of Massachusetts in trust as security for the payment, principal and interest of twelve million of Boston United Gas Bonds issued by a New Jersey company, which afterward assigned to the Bay State Gas Company of Delaware—to which reference has already been made. When, therefore, Mr. Addicks had completed the large water-gas plant in Boston and got permission from the legislature to sell water gas, he found himself in control of these four large companies, whose stocks of about \$5,000,000 were in trust, and in control, also, of the purely financial or promoter's company, the Bay State Gas Company of Delaware. This Delaware company owned the \$4,500,000 obligation—an income bond entitled to nine-tenths of the earnings of the Bay State Company of Massachusetts—and the equity in the four Boston companies whose stocks were pledged for the payment of the \$12,000,000 of Boston United Gas Bonds. The companies were managed as a unit, the gas for them being largely manufactured in the new works of the Bay State Company of Massachusetts, and sold to the other companies for distribution.

The saving in administration was very great, while the effectiveness of the new water-gas process probably exceeded the expectations of its sanguine promoters.

The harvest, therefore, seemed complete. The income bond for \$4,500,000, which was largely water, received its 10 per cent per annum from the apparently tripled earnings of the Boston gas field. This remarkable result was achieved with a great improvement in the illuminating power of the gas, and with virtually no increase in price—although some slight discounts to a few large consumers were discontinued.

But this condition of affairs was not to last long. As in 1884 the field with its old processes, high prices, and great surpluses, had offered an irresistible temptation to the speculator and manipulator, so this prosperous condition appeared too valuable to be let alone by the public official with his eye ever on the popular vote.



On the plausible ground of excessive charges and enormous profits from an illegitimate monopoly, the then Mayor of Boston attacked, in 1893, the Bay State Gas Trust before the legislature and the gas commission, simultaneously, charging besides excessive prices, violation, or evasion of the law, in virtually consolidating the companies, and especially in issuing the four and a half million income bond for little or no consideration.

To compel favorable action on his petition by the legislature and the commission, the mayor, by a shrewd interpretation of the complex statutory powers of the municipality—an interpretation which technicalities have prevented the courts from passing upon—permitted a suburban company, the Brookline; then under control of the Standard Oil interests, to parallel all the gas pipes in Boston at its discretion. The Brookline Company agreed to furnish gas for both public and private use at prices much below those charged by the Bay State companies, and presumably much below actual cost to the Brookline Company itself.

This was a telling stroke, one that could not be successfully resisted by any department of government. The result of this attack was that the commission ordered a large reduction in the price of gas furnished by the Addicks' companies, while the legislature, under threat of forfeiture, squeezed \$3,000,000 out of the capitalization of the Bay State Company of Massachusetts—causing the cancellation of the \$4,500,000 obligation, or bond. Could the reduction of price and of capitalization have been effected without admitting the Brookline Company to Boston, the results might have been wholesome. As soon after the admission of the Brookline Company to Boston (February 27, 1893) as pipes could be laid, the first actual competition between gas companies in Boston began. This competition went on till May, 1896, when the Brookline Company had nearly two hundred miles of pipes in the best portions of Boston. The contest more than destroyed all dividends of the Brookline Company and

required the holders of the equity in the Bay State companies to raise large sums from outside sources to maintain the trust.

The agitation and investigations of 1893 convinced every one that the possibility of issuing the \$4,500,000 obligation had opened the way to manipulate the Boston Company. Therefore, the legislature was not satisfied with merely destroying that obligation, but wished, also, to make such issues impossible in the future. Until the entrance of Mr. Addicks to the Boston field, it was supposed that the statutes against stock watering effectively prevented such issues. By two acts of 1894, known as the anti-stock-watering acts, it is made illegal for any gas company to issue any stocks or bonds for any purpose except on conditions and for purposes approved by the commission, after a public hearing. While there are some grave dangers in these acts, they are, probably, taken all in all, the two most effective acts ever passed in this country to check corporate abuses. They, perhaps, place a greater burden on the commission, both as to work and discretion, than our government organs have usually proved themselves able to bear.

The commission has from its origin had complete powers of inspection over all the companies in the state—powers that can be delegated to experts. It also compels companies to keep their books and make their reports on a uniform system prescribed by the board. It has also had complete power over the price and quality of gas, save that initiative in regard to price and quality rests exclusively with consumers or the local public authorities.

As the desire to introduce a new process was the prime motive of Mr. Addicks in going to Boston in 1884, so in 1896, the possessors of patents for the so-called coke-oven process entered upon a remarkable struggle for admission to the Boston gas field. The appeal was made direct to the legislature for privileges by special act and for permission to consolidate all the existing companies and to contract with them at will for the sale of gas to them.

If the campaign of Mr. Addicks, from 1884 to 1893, changed the whole character of the Massachusetts Legislature, the appeal of Mr. H. M. Whitney and his friends for an opening for coke-oven gas in 1896 revolutionized legislative methods. This struggle took place during the most bitter competitive strife of the existing companies.

In spite of the advice of the gas commission (which had long before come to consider itself the expert arm of the legislature) and in spite of the united opposition of all the old companies, the charter of the Massachusetts Pipe Line Company was granted to the promoters of coke-oven gas in June, 1896.

Although it was impossible to prevent the granting of this charter, the opponents of the measure succeeded in amending the bill in such a manner as to make it seem inexpedient for the incorporators to undertake directly either consolidation or stock watering under it. Presumably Mr. Whitney believed that the new processes would work a genuine progress in the manufacture and sale of gas, but the facts show that his faith did not extend to the point of making him willing to undertake the experiment with his own capital. For, whatever the outcome may be, the venture was and is a hazardous experiment. Furthermore, with the limitation of dividend on actual investment to 10 per cent the possible gains were not a fair compensation for the risk involved. The Massachusetts Pipe Line Company was, much against the will of its promoters, placed under the jurisdiction of the gas commission, and especially under the anti-stock-watering acts of 1894.

It seemed for the moment as if the laws of Massachusetts against consolidation of corporations, leasing or selling of franchises and stock-watering had put a stop to industrial experiment with other people's money, and as if the world would have to wait longer for coke-oven gas. The owners of the new charter did not organize the company for more than a year. Meantime, they combined their forces with the Standard Oil holdings in the Brookline Company.

In May, 1896, the competition between the active companies ceased, by an agreement of the Addicks interest to buy out the opposition. But upon the failure of Mr. Addicks to raise the purchase money he was obliged to permit the management of all the Bay State companies to pass to his great rival in November, 1896. Those in control of the Brookline Company had already bought substantially all the shares of the Dorchester and Jamaica Plain companies.

These united forces then worked out what seems to me the most unique scheme to evade the corporation laws of a state, which can be found in all industrial history. They organized the New England Gas and Coke Company, a voluntary association. The articles of association embody all the essential provisions of limited liability found in the corporation laws. The association thus has the advantages of a corporation and escapes the dangers of partnership liability, the exclusive management of the property being in the hands of trustees. The ownership is represented by shares of the nominal value of \$100 each. These shares were authorized at once to the nominal amount of \$17,500,000 and a loan of \$17,500,000 was also authorized. Of course, there can be no limit to the capitalization of such a voluntary association in the shape of either bonds or shares, except the refusal of the public to advance money on them. Furthermore, the financial and industrial management of the enterprise are both placed substantially outside of the supervision or control of the public authority until legislation is radically changed. For tradition and legislation have been directed against corporations on the ground that they are artificial bodies, with special privileges, created for the public good, and therefore subject to regulation in the public interest.

But let us return to the financial operations of the Coke<sup>1</sup> Company. With the proceeds of the \$17,500,000 loan,<sup>2</sup>

<sup>1</sup> I shall for the sake of brevity refer to this voluntary organization, The New England Gas and Coke Company, simply as the "Coke Company."

<sup>2</sup> \$3,500,000 par value of this loan was reserved to raise working capital, and \$14,000,000 par value used for the purposes indicated here.

substantially all the stock (\$2,000,000) of the Brookline Company, the Dorchester Company (\$519,000), Jamaica Plain Company (\$250,000), and the Massachusetts Pipe Line Company (\$1,000,000), \$1,615,000 of the debt of the Brookline Company and \$1,000,000 (par value) of Boston United Gas bonds were purchased.

In addition to this, from the same source, the owners bought the land for and built the mammoth coke and gas plant at Everett. All these stocks (\$3,505,800 par value and bonds (\$2,615,000 par value), and all the manufacturing plant and other property of the association, were placed in trust to secure the loan of \$17,500,000 from which the purchase money for all the property put in trust was raised.

The Coke Company not being a corporation, and being virtually exempt from supervision, nobody but the trustees of the association know how much investment the plant represents. Interested parties wish the public to believe that the combined plants of the Pipe Line and Coke companies cost \$5,000,000. The Pipe Line Company is merely a go-between, being neither a manufacturer of gas nor a seller of gas to consumers. It merely furnishes a means of legal connection between the manufacturing plant of the Coke Company, which has no franchise or license, and the holders of the gas companies. On the one hand, the Coke Company makes contracts for the sale of gas to the Pipe Line Company, which is all owned by it; on the other hand, the Pipe Line Company sells gas to the old gas companies controlled by the same parties that control both the Coke Company and the Pipe Line Company. These old companies which are corporations subject to supervision become simply distributors.

The Coke Company is actually delivering gas under these peculiar circumstances—the same persons representing both sides in each of these contracts.

This statement shows how difficult control is, and that the theory of control breaks down at a point to which



attention has been little called. In fact, when commission control of corporations of any kind, and more especially of gas companies, was first seriously considered, there was apparently a well-grounded fear that the system might fail, first, from a deliberate and conscious misuse of the appointing power either by unfit appointment in the beginning or by frequent removals for partisan causes; second, that the commissioners, although honestly selected, would be corruptly influenced by the corporations under their control. Such an outcome in many of the states seems to me still possible. But so far as Massachusetts is concerned, these fears have proved perfectly groundless. Fairly good men have always been appointed on the gas commission; no member has ever been removed for any cause whatever; with but a single exception,<sup>1</sup> in fifteen years, no man who wished reappointment has failed to receive it. So that the members have actually remained on the board long enough to acquire a considerable degree of expert skill and experience such as ought to be of great value to the state. No serious charge of acting from any improper motive has ever been made public against the board as a whole or any one member of it.

At first blush, therefore, it would seem that commission control has been tried in Massachusetts under very favorable conditions. On the other hand, the most ardent advocate of this form of control could not, for a moment, maintain that the relation of the gas supply to the public in Massachusetts is at present reasonably satisfactory.

If, then, the system has not exhibited any of the evil results anticipated at the beginning, and, if the sum total of results has been disappointing, what is the explanation of this peculiar condition of affairs?

This question brings us to the real gist of the whole matter, and makes it necessary to call attention to certain funda-

<sup>1</sup> The members are appointed for three years by the governor with the consent of the council, the governor designating the chairman.

tal dangers in our political and industrial life—dangers which are often referred to, but rarely followed to their results in the practical affairs of government.

It has become a stock saying that our municipal government is a failure. It has certainly proved to be so in the large cities, as far as the gas supply is concerned. A prominent remedy for this failure is sought in establishing a more permanent administrative force in our cities. In other words, the movement towards civil service reform and the concentration of power in the hands of the mayor is now the sovereign cure in the popular mind for existing evils. This popular tendency is probably worthy of encouragement. But so long as the office of mayor is not a professional one which satisfies the life ambition of the incumbent, and so long as partisanship on national party lines dominates municipal elections, we ought not to forget that the mayor has the same motives and temptations for playing politics, and appealing to the ignorance of the voter, that the members of the council had before the movement for this concentration of power set in.

The history of the gas supply of Boston in the last eight years will illustrate this point. In the last fifteen years, in addition to concentrating municipal power in the hands of the mayor, Massachusetts has attempted also to curtail municipal power by virtually taking the control of the gas supply and various other industries out of the hands of the municipality and putting it under the direct supervision of the state. Furthermore, in strict conformity to the predominant scientific theory of the day, Massachusetts, by the creation of the gas commission in 1885, also tried to take the gas companies out of the range of legislative interference and control, and to put them under a strictly administrative control. This was supposed to mark a great step forward at the time; and in my opinion it was a move in the right direction. However, the promoters of it did not take account of certain great difficulties in putting this



theory into practical operation. The advocates of state as distinct from city control, and of administrative as distinct from legislative control, did not fully realize that the same forces stampeded the Boston city council under the old city charter in 1885, and admitted the Bay State Company to Boston, carried the mayor off his feet under the new charter in 1893, brought in the competition of the Brookline Company, and granted the pipe line charter in 1896. So long as our political and economic conditions remain at all what they are now, these same forces will attempt first to stampede the commission. So far they have failed to break through the line at this point. But they have not given up the campaign on that account. It is theoretically possible for these forces to stampede the legislature and force it to abolish the commission, or to destroy its usefulness by changing its constitution, and by interfering with its discretionary powers to compel it to do or refrain from doing some specific thing. This outcome has been seriously feared at times in the history of the gas commission. But, fortunately, the fears have not been realized. But with the avoidance of this difficulty the whole battle is not won. There still remains at least one great chance for these forces to win. Namely, to ignore the existence of the commission so far as to appeal directly to the legislature for special rights and favors in the gas field, which rights and favors, consistently with the whole theory of commission control, ought to be granted only on the recommendation of the commission and enjoyed under the supervision of that body. It must not for a moment be forgotten that the legislature determines the constitution, powers, and duties of the commission and holds over it at all times the power of life and death. Therefore, the work of the commission cannot at any time exceed in skill and effectiveness the standard appreciable by a majority in the legislature. Furthermore, whatever may be the individual judgment or knowledge of the members of the legislature—if one can apply such terms

as individual judgment and knowledge to men in such position—all disinterested students recognize that legislative action will never, in our circumstances, rise in honesty, stability, or excellence much above the grade of intelligence, skill, and honesty set by the average voter. This brings us to the end of our reasoning. We have reached an ultimate limit. No stream can rise higher than its source. By no sort of machinery can a government resting on a basis of popular suffrage be better than is demanded by the majority of the voters. Nothing could better illustrate this great, this fundamental principle than the history of the relation of the gas supply of Boston to the public. If the gas commission has any worthy function or logical reason for existing, it is that it may act as a non-partisan expert body and more especially that the solid and constantly growing body of expert knowledge acquired by it shall furnish the *only* basis for future legislation. For any commission at the beginning is but an experiment, and in the early years can do no more than point the way. But if our reasoning in this case has been correct, we cannot expect the member of the legislature to want the advice of the commission, or to act upon it, until the constituents of the members are sufficiently educated to appreciate and demand such action. It certainly is clearly true to-day that members of the legislature act neither on their personal convictions nor on advice which, if they were not members of the legislature, they would consider expert, but rather on the basis of what is supposed to represent momentarily the somewhat evanescent and constantly shifting sentiments and desires of a majority of the voters. Unfortunately, this popular sentiment is not only by nature unstable and intangible under modern conditions, but it is far within the power of designing private interests to effect sudden changes in it at will. So long as this remains true, and so long as the framework of our government and our political practices remain substantially what they now are, so long will the managers of great corporations and industrial

enterprises continue to stampede the voters and lawmakers for private advantage.

Had it been impossible thus to manipulate public opinion in the eighties, the new processes, which were truly needed, could have been easily introduced by such administrative machinery as we have to-day. In like manner, the advantages sought by the introduction of the Brookline Company in 1893, and by the creation of the Pipe Line Company in 1896, could have been obtained. This company was chartered and the competition entered upon, against the judgment of the commission.

These are the three disturbing and injurious events in the history of the gas supply of Boston. They are not only results of the same cause, but are also a sufficient explanation of the creation of this voluntary association—the Coke Company. They explain, too, why the gas commission has not proposed any remedy for the evils threatened by the Coke Company. The commission knows all too well that it dare not take any position without giving a reason for it to the public, and that it is useless to give or allege any reason which will not instantly meet with popular support, and that, too, when every private and corporate interest which does not want the public to support that view is making every effort, legitimate and illegitimate, to prevent the public from accepting the view of the commission.

Could the commission be assured for five years of unbroken legislative, that is to say, popular support, it could, either under present laws or under amendments within the power and duty of the commission to suggest, control not only the corporations but also the Coke Company. That is, commission control is weak, because the commission is a sort of tenant at will of the legislature, and the legislature has no stable will or policy.

Let us consider the relation of the commission to the Boston situation to-day. Apart from the unlimited inquisitorial powers of the commission, it has three important functions.

First, it has complete power over the capitalization; second, it lets in or keeps out competing companies upon appeal; and third, upon proper petition it fixes the price of gas.

The policy of the state in favor of regulated monopoly has been so specifically declared by statute and rulings of the commission that it seems improbable that any competing company will in future be introduced by the commission. Until further legislation, the voluntary association in the form of the Coke Company has removed itself practically from the jurisdiction of the commission. The indirect power over the price charged consumers is apparently the only one remaining.

But the same power that removes the capitalization of the Coke Company from the jurisdiction of the commission, in practice destroys the power of the commission over the price of gas. The commission has not yet been able to get at the amount of the investment or the manufacturing accounts of the Coke Company. Until the commission knows what it costs to manufacture gas, how can it determine whether the prices charged by the Coke Company to the Pipe Line Company are reasonable? Could it do so, the only method of reaching the evil would probably be by lowering the selling price to the consumer. Had the commission access to the accounts of the Coke Company, however, it could have but a meagre basis for a sound judgment of the cost of manufacturing gas. For it should be recalled that gas in this case is really a joint, or rather, as already explained, a minor or by-product of the manufacture of coke. Therefore, its separate cost of manufacture cannot be determined by any one. What it costs to make gas depends on what it costs to make coke, and a fair price for gas depends on what the coke brings.

In short, the assumption of the form of a voluntary association instead of a corporation has carried the gas industry in Massachusetts, or at least in Boston and vicinity, practically back to where it stood throughout the whole country

thirty years ago. That is, we have unlimited and unknown capitalization, which in and of itself makes the determination of a fair price impossible. Then we have an experiment going on under the management of a group of men who, having none of their own capital invested, suffer nothing in case of failure, while being owners of the equity in the concern they get all the gains in case of success. But it may be asked, has not the commission power over the price of gas sold to consumers (if not over the price of inter-company sales), and can it not reach the difficulty by simply fixing a price which is fair to the consumers without regard to the manufacturers of, or dealers in, gas? This would seem possible at first sight, but under present conditions it is impossible. In the first place, the price fixed must be a reasonable one or the courts will not uphold it. But it goes without saying that the commissioners cannot strike in the dark, and they cannot get at the data necessary for a sane and certain judgment any more than the council or legislature could do so a generation ago. But if the commission could get at the investment and manufacturing accounts of the Coke Company and should find that the new process cannot be operated at a profit at prevailing prices, what could it do? For the commission from its origin has held that no experiment ought to be tried until its success is probable enough to induce the promoters to risk their own capital in the enterprise. On this principle the commission opposed the investment of the Coke Company on its present basis. Should, therefore, the Coke Company by amendment of the law be placed as fully under the jurisdiction of the commission as the gas corporations are, what would be the duty of the commission in view of the past history of the company in case the experiment bade fair to fail?

But even a greater practical difficulty is, that the evil has already been done, and the \$12,000,000 of Boston United Gas bonds, the unlimited and unknowable amount of the stock of the Bay State Company of Delaware, and other



extra-Massachusetts securities, as well as the \$35,000,000 stock and bonds of the Coke Company have, in large part, long since passed to unknown, and presumably innocent, hands. Is any American state government strong enough to-day to freeze out the holders of any considerable portion of this vast amount of securities—securities which, until the courts rule otherwise, must be assumed to have been legally issued? In my opinion, any such reduction of capitalization to become possible, must have back of it a judicial determination that these securities were not legally issued. Such a decision in this case seems at least improbable. I venture the prediction that, however great the violation of public policy or the moral law in issuing these securities, so long as those who issued them or those who hold them can put forth a truthful claim that the securities were legally issued, no administrative commission can, by its ruling, destroy them without having that ruling tested in the courts and probably annulled. At any rate, the attempt so to destroy the value of such securities would probably destroy the commission. Nor, in my opinion, will the legislature knowingly undertake to destroy these securities under its rights to repeal charters. The support of this excessive capitalization appears, therefore, to be saddled upon the consumers of gas, except in so far as the managers of the companies may by their strife among themselves bankrupt one or another of the companies, or procure a judicial decision that will bring about the same result. For reasons already given, the commission must, to maintain itself in popular favor, be perfectly sure of every step it takes, and be able instantly to justify that step to the public. But if it had perfect access to all the books and records of all the companies so long as the inter-company contracts exist and are entered into and changed at will by men who in each case are making contracts with themselves, one cannot presume that the commission will ever get permission to make expenditure enough to enable it to keep up with the hide-and-seek

game played by those in control of the industry, or to audit the accounts of the different corporations all kept by the same men, often enough or with sufficient care to have any confidence in a judgment based on them or to presume to justify that judgment to the public. It is utterly impossible for any public authority in Massachusetts to say what a fair price for gas in Boston is.

It should also be remarked that, apart from the secrecy, the excessive capitalization, the inter-company contracts, which the same set of men make with themselves, more than 98 per cent of the stocks in all the Massachusetts corporations involved are in possession of one or the other of two New York trust companies as security for a portion of this foreign and excessive domestic capitalization. If one should so far stretch language as to speak of a fair price for gas under these circumstances, one should realize that any fixing or public interference with price might easily wreck the whole legal complexus on which the business now rests. For reasons already given, the commission cannot be sufficiently sure of its facts to justify it in entering upon a course likely to bring about such a collapse. When one cannot even tell who is an innocent holder, one may well be a little slow in trying to strike a deliberate blow at any holder. In short, the object of those who brought about the present complexity was to produce a condition in which a price that is fair for one interest involved should necessarily be unfair to some other interest. Nothing short of legal consolidation can possibly simplify this situation. But the difficulties of determining a fair price turn out to be, viewed from another standpoint, exactly the same difficulties as those presented in distributing equitably the stock in a consolidation among the different parties in interest.

Enough has now been said to show the weakness of the present condition of control of gas companies in the only state which has made any serious attempt to exercise a public control over them. The question naturally arises,



does this account demonstrate the impossibility of control and drive us inevitably, however reluctantly, to the advocacy of public ownership and operation? In my opinion neither of these conclusions is completely justified, while I see no evidence whatever in the facts surveyed to indicate that public ownership is more likely to succeed than public control. In fact, the lesson of the whole story to me is, that the evils are more deep-seated than the form of ownership resting on the ignorance of the mass of voters in regard to both government and industry. That ignorance rests upon an utter lack of appreciation of the complexity of modern industrial conditions and a complete absence of any popular apprehension of expert knowledge, or its value to its owner or the public. One manifestation of this ignorance gives us the 10 per cent dividend limitation in Massachusetts. I have not time to elaborate the effects of this superstition, but wish simply to remark that, as long as that tradition holds, one of two things will result. The laws enacted to enforce this view will either be violated or evaded, as is now done, or all progress in industry must cease. While an annual dividend of 10 per cent is an ample reward in a reasonably safe investment which has passed the experimental stage, a chance of that amount as a maximum is in no sense a sufficient inducement to lead men to risk their own money in an enterprise involving a large amount of fixed capital so long as there is great danger of a total loss of principal as well as dividend by a failure of the experiment. The consumer ought, in the long run, to pay the expense of legitimate industrial experiment. He does not do this when he enforces successfully the 10 per cent dividend limit.

The very thing, therefore, which has caused commission control to yield such meagre fruits in Massachusetts would be sure to make public ownership give still less desirable results. But has commission control been so complete a failure as to cause us to despair of the whole problem? This is too large a question to enter upon here. Suffice it to say

that to despair here is to despair of all self-government as we understand that phrase. I venture the prediction, however, that if the problem is capable of solution, it must be settled along the lines of the work of the Massachusetts Gas Commission. For if my diagnosis of the evils to be eradicated and of the difficulties encountered by the commission is correct, it follows that the difficulty comes ultimately from the dependence of the commission upon the ignorance of the voter. It follows necessarily that the only possible remedy is the political, administrative, and industrial education of the voter and through him of the legislator.

Any one who has followed the history of this commission is drawn irresistibly to the conclusion that, however far short that body may have come of the desired results, it has followed the only logical, or, in fact, rationally possible, method for the attainment of those results. In my opinion, the hope of the future lies in patiently improving and perfecting the educational work of administrative control, with its uniform bookkeeping, accounting, and public inspection. If this fail ultimately, we shall of course try something else; but I for one shall come to believe with Cyrano de Bergerac that "one does not fight because there is hope of winning," and, that, "it is much finer to fight when it is no use."



REGULATION OF COST AND QUAL-  
ITY OF SERVICE AS ILLUSTRATED  
BY STREET RAILWAY COMPANIES

BY DR. FREDERIC W. SPEIRS

PHILADELPHIA



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SERVICE AS ILLUSTRATED BY STREET  
RAILWAY COMPANIES.

Dr. FREDERIC W. SPEIRS, Philadelphia.

The conditions under which we approach the street railway problem at the present moment are peculiarly favorable for effective discussion. Until recently the indifference and corruption of public officials and the deliberate policy of falsification adopted by many street railway managers have conspired successfully to conceal the most fundamental facts regarding capitalization, cost of operation and profits. But patient and persistent effort has now wrested from imperfect public records and has wrung from reluctant officials enough facts to furnish an adequate basis for sound induction. We now have detailed studies of the street railway systems of several of our great cities, and a growing collection of valuable official investigations crowned by the comprehensive report of the Massachusetts special committee on street railways, published in 1898. We have therefore passed the period of sweeping generalizations from imperfect data and of misleading comparisons between American and European conditions founded on imperfect knowledge of both.

These investigations of the relations of the public to street railway corporations in most cases reveal a tragedy of errors. We are now paying the penalty of ignorance and recklessness in the bestowal of franchises. The penalty takes the form of excessive profits in our larger cities, of systematic corruption of our legislative bodies for the purpose of protecting these illegitimate profits, and of general overcapitalization which demoralizes the stock market and justifies the statement that current investments in railway

securities must be classed as extra hazardous. While in some cases the consequences of our unwise policy are limited to this generation, in others injustice to the public can be remedied only through infliction of heavy loss upon those who have made investments in good faith.

There is much confusion in the public mind regarding the financial results of street railway operations in the United States. It is the general belief that such enterprises, with present rates of fare and with light franchise burdens, are extraordinarily profitable. This is a correct impression with reference to the large city systems. It is incorrect so far as it relates to the railways in small communities and in suburban districts. The most reliable figures of street railway profits are those of Massachusetts. The report for 1899 shows that during the previous year forty-nine Massachusetts companies paid dividends ranging from  $2\frac{1}{4}$  per cent to 8 per cent, while fifty-four companies paid no dividend. The forty-nine companies that showed profit were capitalized at \$33,649,950, while the fifty-four that made no profit represented only \$5,283,966. The average rate of dividend for all the companies was 5.8 per cent. And it should be remembered that the capitalization on which these dividends are declared is not excessive, so the rate indicates real return on investment. These results illustrate the general statement that street railway investments as a whole do not yield abnormal profit.

If we turn from these figures to those of New York, Philadelphia, Chicago and other large cities we find the justification of the general impression regarding street railway profit. The explanation of the moderate return of the small systems and the exorbitant profits in certain large cities is the general application of a customary rate of fare, five cents. This rate applied in many cases from the very early days is practically universal, regardless of the real cost of service. The rigid adherence to custom in this particular embarrasses the small systems where operating expenses are relatively large,



and enriches the large city companies that have the benefit of concentrated traffic with a considerable proportion of short distance riders. It is only in the great cities, then, that we may reasonably expect material reduction of fare or large increase of contributions to the public treasury. But in these communities there is wide margin for readjustment on one or both of these lines.

The possibilities of controlling rates and character of service in such a way as to realize the fullest benefit for the public are conditioned largely upon the form of franchise. We have to deal with three general forms in the United States—the unlimited, the indeterminate and the term.

The unlimited franchise was quite generally granted in the earlier years of street railway development and is still permitted in half of our states. The peculiar features of this form are admirably illustrated by the Philadelphia system, although strictly speaking Philadelphia franchises are not unlimited, for they are subject to the reserved right of municipal purchase. But this provision has been entirely ignored by public and railway managers during more than forty years of development, and the system has been built upon the assumption of perpetual right to occupy the streets on terms fixed more than a generation ago.

The glaring evil of this form of franchise is the difficulty of readjusting the compensation for monopoly privileges as the community grows and the conditions change. In addition to this manifest weakness, there is the peculiar temptation to overcapitalization in communities where present profits are large and future possibilities of profit are still greater. Overcapitalization is an evil not confined to companies holding perpetual franchise, but it is most serious under that form. The Philadelphia system exhibits the worst possibilities of the unlimited grant in this direction. The profits of many of the lines have been excessive from the very beginning. As early as 1864 one line was earning 45 per cent dividend on actual investment,

another 28 per cent, two more about 20 per cent, and the entire system was averaging nearly 10 per cent on paid-in capital. In the early eighties these large profits attracted the attention of a coterie of bold financiers who have since become famous in the street railway world as the "Philadelphia syndicate." They quietly bought large blocks of stock and then formed an operating company in 1883 to lease the original lines at very high rentals. Ten years later all the original companies except one had been leased by three traction companies, and in 1893 these three operating companies were absorbed by the present Union Traction Company. The monopoly is now perfect.

The abnormal profit is indicated by the lease charges paid by the Union Traction Company. One important line receives a guaranteed annual dividend of 72 per cent on paid-in capital, another 71.6 per cent, a third 42.8 per cent and eight other lines a dividend ranging from 40 to 20 per cent on actual investment.

During the various consolidation processes the capitalization has been inflated in the familiar way until the total net capitalization of the system is now above \$108,000,000, which is more than three times its cost of construction and equipment as reported by the companies. The investigation made three years ago showed that the market value of the stocks of the company then exceeded \$120,000,000 while the company's figures of the total cost of the system were only \$36,000,000. Thus accepting the exaggerated cost figures of the company, Philadelphians are expected to pay for their street car service the market rate of interest on more than three and one-half times the capital actually invested.

Excessive inflation on the plan indicated by the Philadelphia system is invariable in large cities wherever the unlimited franchise prevails. Comparative figures of capitalization per mile of track indicate the extent of this evil in the two greatest cities which have unlimited franchises.

As a standard of fair capitalization of a system in a large city we may take the figures of the West End Company of Boston. This company reports a capitalization of \$103,655 per mile, and the Massachusetts railroad commission declares, after special investigation, that 92 per cent of that amount represents actual value of plant. It is possible that this figure is excessive, but assuming it as a conservative estimate, we have about \$95,360 as a reasonable capitalization per mile for a thoroughly equipped road with heavy city traffic. In comparison with this, Mr. Edward E. Higgins, editor of the *Street Railway Journal*, estimates the average capitalization per mile of the surface railways of the boroughs of Manhattan and the Bronx at \$348,387; of greater New York at \$201,381; and of Philadelphia at \$265,510.

Such overcapitalization as is here indicated as a special characteristic of the unlimited franchise makes the readjustment of fares and franchise charges on an equitable basis difficult for the public and most painful for the investors. Many of the present holders of securities have reaped no benefit from the inflation process. Those who received the exorbitant returns through inflation of stock values have either sold their securities or are prepared to do so at the first symptom of forced contraction. The extent of the loss to recent investors in many of our great cities, if the public ever demands service at cost, is indicated by the facts for Philadelphia. With gross earnings of \$11,793,858 the Union Traction Company last year paid \$5,634,726 as guaranteed dividends on the stock of constituent companies and interest charges on bonds. Five per cent interest on the real investment which these stocks and bonds represent, at the most liberal estimate, would be less than \$1,800,000, so a contraction of these inflated values would mean a reduction of more than \$3,800,000 in annual interest payment to the stockholders of Philadelphia railways. But until that great sacrifice is exacted either by reducing fares or by increasing taxation, the public will not secure transportation

on the terms which an efficient system of public ownership and operation would give. This is the most serious phase of the street railway problem under the unlimited franchise.

The second form of franchise with which we have to deal is that represented by the peculiar Massachusetts system of indeterminate franchise which may be revoked at the pleasure of the local authorities with the approval of the state railroad commission. This plan gives the public power to readjust franchise compensation at any time in the simplest fashion. The careful supervision of the Massachusetts railroad commission has prevented gross overcapitalization in that state, and the railways are therefore in a position to grant without disturbance to their financial organization any reasonable demands which the public may make.

While this plan of indeterminate franchise seems ideal from the standpoint of the public, it appears extraordinary that the investor is willing to undertake street railway operations with no definite tenure of location. The Massachusetts special committee on the relation between cities and towns and street railway corporations, appointed in 1897, was instructed to consider the advisability of modifying this form of franchise, but it reports that investigation showed that neither the municipalities nor the companies desired to change the system. The report declares that "It was evident that, while the municipalities wanted to retain as a weapon—a sort of discussion bludgeon—the right of revocation at will, the companies preferred, on the whole, a franchise practically permanent, though never absolutely certain, to a fixed contract tenure for a shorter term, subject to the danger of alteration at every periodic renewal."

It seems unlikely, however, that other communities will seriously consider the plan which has apparently worked well under special conditions in the progressively conservative state of Massachusetts. The District of Columbia is the only other locality where this form prevails.

The third form of franchise is the term contract, which has

been used in a few of our states from the earliest days of street railway development, and has been most fully developed in Europe. In most cases in this country the franchise term is between twenty and thirty years, but Wyoming has fixed ten years as the maximum period. The tendency at present seems to be toward a twenty year term.

The short term franchise is now generally accepted as the best system of regulating the relations of municipalities and street railway corporations. Under this plan the operating company has certainty of tenure and the municipality has relatively frequent opportunity to readjust the conditions of franchise to meet changing needs of the city. The ownership of the tracks by the municipality, which is usual in Europe, simplifies the lease terms and will probably be adopted as a general policy here very soon as a concession to the growing sentiment in favor of municipal ownership and management.

The question of the price of franchise privileges presents grave difficulties in the adjustment of the details in each special locality, but the broad principles upon which the contract should be framed are well defined by experience. The practice in the United States has been most confused and irregular. It is usual for the local authorities to prescribe one or more of the following charges as compensation for the grant of location: a tax on gross earnings, a dividend tax, car licenses, street paving and lighting. In addition, the real and personal property of the railway companies are usually taxed at the regular rates. And finally the state frequently subjects the street railways in common with other corporations to a tax on capital, dividends or on gross receipts.

Under an ideal system the local charge for franchise, which is the special price of the monopoly privilege, is adjusted in such a way that it will absorb all the net profit from the operation of the railways above a fair return to the capital invested. In the cities where street railway



enterprises at the customary fare of five cents are exceedingly profitable, the public may choose between two methods of arranging conditions. They may dispose of the franchise to the corporation that offers the lowest fare, and thus realize little in the form of contributions to the city treasury. Or they may stipulate the customary fare of five cents and provide for large public income from the railways. This latter form manifestly levies a special tax on users of street cars which is collected by the corporations.

The payment for franchise privileges has been exacted in this country under various forms. In the early days it was usual to require the companies to pave and repair the streets which were occupied by their tracks. This form of franchise payment has assumed greatest importance in Philadelphia, where it is the largest element of the local income from street railway franchises. The duty of paving was imposed by the original franchise grants, but it was generally neglected until 1892, when trolley privileges were secured. Then as the specific price of these favors, the city was transformed in a few years from one of the worst to one of the best paved cities in the United States, at an expense to the companies variously estimated at from \$9,000,000 to \$14,000,000. But even in view of this achievement an examination of the unfortunate experience of Philadelphia before the trolley period confirms the experience of other cities that this form of franchise payment is burdensome and vexatious. The city should never entrust the care of its highways to a street railway corporation, which has no business interest in their proper maintenance.

A still more unwise, but very common franchise exaction, has been the tax on cars. When this was first imposed, its constitutionality was questioned, and a Pennsylvania judge affirmed its validity on the ground that it was a proper police measure to prevent the obstruction of the public highway by an excessive number of cars. It is still very effective from the point of view of the learned judge.



A third form of charge is the tax on dividends. This has been incorporated in a large number of contracts, but although it is most alluring in theory this tax has been found very difficult to collect. With the imperfect supervision to which railway corporations have been subjected, the manipulation of dividends has been too easy to make the dividend tax desirable.

The fourth form of franchise charge is the one approved by sound theory—the tax on gross receipts. The fairness of a tax on receipts is generally recognized. Moreover, gross receipts are more easily ascertained than any other financial fact, and the assessment is therefore simple. With our present lack of adequate supervision of street railway accounts, this tax is therefore peculiarly desirable.

Our experience, then, would seem to indicate that the ideal system of adjusting the relations of the municipality and street railway corporations, if we are to retain private management, is public ownership of tracks with private operation under a term contract for a period not exceeding twenty years. The contract should stipulate the lowest possible fare which promises a reasonable return on investment and should provide for a progressive tax on gross receipts.

The oft-cited contract which Toronto made in 1891 is a capital illustration of this form of franchise. The twenty years' lease under which the Toronto railways are operated by a corporation, provides first for an annual payment of \$800 per mile of track, which is specific rental for the track which is owned by the city. In addition, the company pays a percentage of gross receipts rising by degrees from 8 per cent on receipts of less than \$1,000,000 to 20 per cent on receipts of over \$3,000,000. Ordinary fares are six tickets for twenty-five cents. For early morning and late afternoon hours eight tickets for twenty-five cents are sold, and the fare of school children at specified hours is only two and one-half cents.

If the suggested system of special payment to the city for franchise privileges be adopted and the terms arranged so

that the railway corporation shall pay the full value of its monopoly right, the general taxation will be very simple. The railway corporation virtually stripped of special privilege will stand in precisely the same position as any other industrial enterprise. It should pay local taxes on real estate and on personal property, if other holders are thus assessed. If the state derives a revenue from corporation taxes, the street railway corporation should bear its share on precisely the same basis as any other industrial undertaking. The much discussed Ford bill of New York which adds the value of franchises to the value of real estate for purposes of taxation, is an admirable measure as applied to street railways under present conditions, since the railways have not paid an adequate price under local contract for their monopoly rights. But under a term contract framed on the lines of the Toronto or of European agreements the payment for franchise right is exacted more easily and more perfectly than it can possibly be obtained through the principle of the Ford bill or of the earlier Massachusetts tax law of similar purport.

The ominous discontent of the public with existing franchise terms and the rapid growth of the desire for public ownership and operation are moving managers of unduly profitable systems to consider concessions. The *Street Railway Journal*, the leading technical publication in that field, recently urged upon its constituency a proposition that coming from such a source would have been startling a few years ago. The editor proposed that the gross receipts of a street railway company be distributed as follows: First deduct from the receipts the operating expenses, state and local taxes on real estate and personal property, amortization fund, reserve fund, employees' benefit fund, and finally 4 per cent interest on capital. Then make an equal division of the remainder of the gross receipts between the municipality and invested capital. Such a plan applied to our large railway systems would yield a very considerable public revenue.

None of our great cities realize an adequate price for franchise privileges. Philadelphia is among the most fortunate. The city and state absorb about 12 per cent of the gross receipts of the Union Traction Company. The possibilities for greater public revenue have already been indicated by the facts with reference to excessive dividend rates. Baltimore is another favored city. The public treasury will receive this year about 10 per cent of gross receipts. The other great cities are far behind those cited. The Metropolitan system of New York, for instance, with its immense earning power, pays only  $5\frac{1}{2}$  per cent of gross receipts to the city and state. The railways of Massachusetts pay about  $4\frac{1}{2}$  per cent of gross earnings in the form of taxes.

No phase of American street railway history is so humiliating as the almost unbroken record of failure on the part of the public to exercise reasonable powers of control over the corporations. The difficulties have been of two kinds--legal and administrative. In many cases defective laws have conferred powers of control in such vague terms that any attempt to interfere with the management has led to protracted litigation. In other cases where the right of public control is clearly expressed, the corporations have found it cheaper to corrupt legislatures and administrative officials than to accept reasonable regulation of service under the law. The right of public control in the absence of specific contract provisions is ill defined at the present moment. The general police power has been invoked to regulate the number of cars, the hours of labor of employes, and in at least one case to reduce fare. We greatly need clear legal definition of the extent of the power of control beyond the special provisions of the charters and ordinances.

Manifestly a prime essential of effective public control is publicity of accounts. Until recently the corporations have generally refused statements of real financial conditions.

The few statements extorted from them by public officials have been so confused in form or so meagre in detail that they were quite valueless. In Pennsylvania, for instance, traction companies corrupted the state officials when the consolidation process began, and substituted for the complete sworn returns of the earlier days a balance sheet which meant nothing. The sworn report to the auditor general of Pennsylvania as a basis of taxation is still held by that officer as confidential. This policy of secrecy is happily near its end, for the toleration of the public has been strained to the breaking point. Moreover the managers of the corporations now realize that the prevalent belief that all street railway enterprises are enormously profitable is fostered to a dangerous degree by secrecy, and the instinct of self-preservation is inducing them to proffer information and to court investigation wherever their management can bear the light. The carefully drawn statements prescribed by the Massachusetts commission, returned under oath and subject to the check of access to the books by the commissioners, are models of the kind of official reports needed for intelligent control of the conditions of service.

A state commission seems to be the best device for control, in spite of certain obvious defects, and the Massachusetts commission is a good type. One of the chief functions of such a board is to control capitalization. The excellent system of Massachusetts shows the possibilities of effective work along this line. A railway company wishing to increase its stock or bond issue must prove to the satisfaction of the railroad commissioners that the increase of capitalization will find expression in a real addition to the value of the property of the company. Furthermore the commission is charged with the duty of forcing a reduction of capitalization as the value of the plant decreases. The success of Massachusetts in holding the capitalized value close to the real value of railway property suggests the adoption of a similar plan in all of our states.

The regulation of fare, the number of cars, the maximum length of the working day for employes, the provision of safety devices and the control of other similar conditions of service should be vested in the local councils, with a conservative provision for appeal to the state commission. With insistence upon publicity of accounts and with clear and reasonable provisions for control on the principles already established in Massachusetts, the larger part of our street railway difficulties will disappear. If these measures are not generally adopted with reasonable promptness, the reaction against corporate abuses will speedily carry us over to municipal ownership and operation. There are plain indications that the public are likely to fly to ills they know not of rather than bear those they have.

After this review of our street railway situation, in which much has necessarily been said of shortcomings and failures, we should not fail to note the gleam of consolation in our experience. As we examine the contracts of European cities with their street railway corporations, and note how thoroughly the financial interest of the municipality is safeguarded and how complete are the provisions for public control, we are likely to draw comparisons which are very unfavorable to the best of our American franchises. But when we contrast the imperfectly developed systems of the foreign cities with our own magnificent reaches of lines and our excellent equipment, we must revise our judgment and concede something to the credit side of our account. As a somewhat extreme instance of a general condition, contrast Glasgow, a city of 800,000 inhabitants with seventy-three miles of tramway, with Boston, a city of 500,000 inhabitants and two hundred and twenty miles of track. The more complete systems and the superior equipment of our American railways cannot be ascribed wholly to differences in franchise terms, but there can be no doubt that American liberality, even recklessness, toward street railway corporations has encouraged them to push out their lines and perfect

their equipment. The rapid extension of track encouraged by our prodigality of franchise, in connection with our system of uniform fare, regardless of distance, has undoubtedly helped to save our cities from the worst evils of excessive crowding, which is such a serious problem abroad. It is conceivable that viewed in the perspective of a half century it will appear to our successors that the heavy price we have paid in past profits, in present overcapitalization and in political corruption has not been too great for the benefits of a well-developed system of local transportation, with its relatively wide distribution of city population. It is at least clear that if we now revise our franchise conditions in the light of the knowledge gained by costly experience we shall presently enjoy the best street railway service in the world at reasonable rates.



II.

THE INFLUENCE OF CORPORATIONS ON POLITICAL LIFE ∴ ∴

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ANNUAL ADDRESS.

BY HON. WILLIAM LINDSAY,  
UNITED STATES SENATOR FROM KENTUCKY



## THE INFLUENCE OF CORPORATIONS ON POLITICAL LIFE.

Annual Address by Hon. WILLIAM LINDSAY, United States Senator  
from Kentucky.

There was a time within the memory of the living, when the serious consideration of the subject assigned me for discussion this evening, would probably have excited, with practical men, emotions of surprise. In the earlier—I was about to say, the better days of the republic—few, if any, supposed that it would ever be possible for corporate influences to affect political life, and no one contemplated that before the end of the nineteenth century an “artificial being, invisible, intangible, and existing only in the estimation of law,” with no properties, capacities or powers other than those conferred for special business purposes by the sovereign authority, would come to be regarded, and rightfully regarded, as a potent factor in political life. Yet to-day it is a fact, and a momentous fact, that combinations of capital, organized as corporations, and primarily devoted to business purposes, have acquired the control of production, wages and prices, to such an extent that many of our most intelligent and far-seeing citizens are demanding at the hands of state legislatures and of the federal congress, legislation looking to the restraint of such combinations to the strictly legitimate exercise of their delegated powers. These citizens complain, too, that corporations, not content with the extraordinary and dangerous control they exercise in affairs of business, have become customary participants in political contests, and insist that the results of elections, especially municipal elections, are often brought about by the active intervention of corporate managers, and the illegitimate use of moneys supplied from corporate funds.

These complaints may not be altogether just, but that corporations do participate in local and municipal elections and do contribute to the campaign funds of the great parties that periodically contest for the control of the state and federal governments, there are the best of reasons for believing. In municipal contests those contributions are not always intended for the promotion of party ends or purposes. In an investigation made by a committee of the United States Senate three or four years since, it was developed by one of the principal officers of a corporation then virtually controlling the production and fixing the price of an article of general consumption, that the contributions of his corporation depended, not on political principles or political convictions, but on corporate considerations. In Democratic cities the Democratic party received the benefit of the contributions devoted to *legitimate campaign purposes*, while in Republican cities the rule was reversed, and the managers of the Republican party were permitted to expend the corporate funds set apart for *the promotion of honest government*.

The general intervention of corporations in political affairs is of comparatively modern origin. In the five volumes of McMaster's "History of the American People," now in the hands of the reading public, in which the mingling of social and political history involved a discussion of American politics as thorough and exhaustive as it is entertaining and instructive, no reference is made to corporate influences on political life.

During the first administration of President Jackson the controversy between those who were friendly and those who were adverse to granting a new charter to the Bank of the United States began. It became a party question and was one of the leading issues in the campaign resulting in that President's re-election.

Among the causes assigned by him for the subsequent removal of the national deposits was the charge that the bank was faithless as a public agent "in the misapplication

of public funds, its interference in elections . . . and above all, its flagrant misconduct . . . in placing all the funds of the bank, including the moneys of the government, at the disposition of the president of the bank as a means of operating upon public opinion and procuring a new charter." In one of his later messages he denounced it as a permanent electioneering scheme.

We have nothing to do this evening with the merits of that controversy. It is important only in the fact that it indicates, with reasonable accuracy, the date at which corporate influences on political life began to attract public attention and to provoke official condemnation. That such influence has continued (in a greater or lesser degree) to make itself felt in current politics, is an undisputed fact with every one acquainted with the political history of the past three-quarters of a century.

It has assumed very grave importance in recent years. The facility with which charters may be obtained and valuable franchises secured has encouraged the formation of corporations for the transaction of every character of business, and we have reached the point at which the individual feels he can no longer compete with his incorporated rival, and where members of old-time partnerships are no longer willing to pledge their personal credit in competition with members of incorporated companies, whose liabilities being limited, do not hesitate to assume risks in business adventures from which prudent business men, unprotected by corporate exemptions, unhesitatingly shrink.

The inequality in the advantages enjoyed by corporations and individuals has aroused feelings of impatience and discontent, and those feelings have culminated in the demand for corporate regulations, which, in some instances, are as unreasonable as they are needlessly comprehensive. Those interested in corporate property and corporate business, of course, resist such demands, and out of the demands on one side, and resistance on the other, the great question of trusts,

and what is to be done with and about trusts, has developed into an issue of transcendent national importance. The difficulty of deciding as to the character of restraints that may be safely and prudently imposed, is rendered all the greater by the difficulty of determining the extent of congressional authority, and of locating the boundary line that separates the inherent jurisdiction of the states, from the delegated authority of the general government.

It is to be regretted that the consideration of this far-reaching question is approached with passion and prejudice by many of those who complain of existing conditions, and with cold-blooded and almost brutal indifference by many of those who enjoy the advantages and reap the benefits of corporate organization. How far combinations of capital diminish the cost of production and transportation; to what extent, and in what direction, they affect the wages or diminish or increase the demands for labor; whether their benefits to the farmer and planter are equal to the injuries they inflict, are economic questions that ought to be honestly, dispassionately and patiently investigated. They cannot be intelligently discussed, or fairly or justly solved, until their true relations shall be understood. Radical reforms, attempted to be introduced while ignorance and passion are in the ascendency, will breed other mischiefs and probably relieve none of the evils of the situation.

As we advance in civilization new and difficult social problems arise. As we improve material conveniences, and change the methods of production and transportation, new and difficult economic problems present themselves. Steam and electricity have converted the old into a new world. In what manner, and to what extent, the methods and customs, the business theories and practices, of the olden times are to be modified or changed to meet the exigencies of the present, we are not yet ready to determine, but faith in the sense of justice and fair play, and confidence in the judgment of the conservative majority, which in the end always



asserts itself, encourage the hope and inspire the belief that we shall not fail ultimately to reach wise conclusions, and to shape and keep the new conditions in harmony with the principles of patriotism, justice and common sense.

Since the adoption of the Federal Constitution each generation has had to meet and deal with issues which, in the opinion of the faint-hearted, threatened not only the perpetuity of the Federal Union, but the continuance of free institutions. The alien and sedition laws of the elder Adams led to the adoption of the Kentucky and Virginia resolutions of 1798-99, and opened the eyes of the American people to the fact that the opinion was then entertained by some of the greatest statesmen that the union of the states was in the nature of a compact, and that the violation of any of the terms of that compact by the general government absolved each state from its obligations, and that each state was the final judge of the supposed infraction and possessed the right to determine whether it should withdraw from or continue a member of a union which the framers of the constitution had fondly hoped was to prove perpetual.

It was claimed by those who opposed the acquisition of Louisiana that the erection of new states out of that territory, and their admission into the Union without the express consent of every state, would be in contravention of the federal compact, would reduce the relative importance and impair the dignity of the original states, and be equivalent in law and in morals to the dissolution of the Union.

The enactment of the protective tariff laws of 1828 was denounced as a gross violation of the Constitution and was followed by the nullifying statutes of South Carolina, which would have led to civil war but for the firmness of President Jackson, and the adoption by Congress of compromise statutes gradually relieving the hardships against which the agricultural states most bitterly complained.

The acquisition of the territories ceded by Mexico in 1848 led to questions touching the institution of slavery that for

a time seemed beyond the possibility of peaceful settlement. That discussion accustomed the minds of the people to the contemplation of the irrepressible conflict that culminated in the civil war, and was only settled at last by the destruction of an institution for the existence of which the people of all the states were alike responsible, but the evils of which fell with peculiar weight on those states where the profitable character of African slavery prevented its eradication during the earlier years of the republic.

The Union has not only survived all these disturbing issues, but rests on a firmer basis to-day than ever before. No one now asks what we shall do with the territorial issues of the past, but how we shall meet and dispose of the questions arising out of the duty we have assumed of deciding the destiny of the people who came to us with the territories acquired by the treaty restoring peace between the kingdom of Spain and the Government of the United States.

Are the people of the United States to be henceforth divided into citizens and subjects? Does the Constitution follow the flag, or are its beneficent provisions confined in their operation to the American States, between whom it constitutes the bond of union, until the representatives of those states shall extend its provisions to the stranger, brought under our jurisdiction by the fate of war or by treaty, leaving those representatives free to decide as American interests, American honor and American magnanimity may require?

These are the questions that are now being asked on every hand. The recent legislation concerning the Island of Porto Rico has given them exceptional prominence. The interest aroused by that legislation in every section of the country and with the people of every class, condition, vocation and pursuit, encourages the hope, as it gives reason for the belief, that the ultimate settlement of these absorbing issues will not be inconsistent with our theory of government or in conflict with the practical application of the great principle

that the just powers of government rest on the intelligent consent of the governed.

The danger to the perpetuity of free institutions, if such danger there be, does not grow out of expansion, and is not the more alarming because of the difficulties to be overcome in the administration of the affairs of our new possessions. If imperialism is to supersede the principles of free government, if empire is to take the place of the republic, the revolution, when it comes, will be traceable to internal and not to external causes.

It will not be provoked by our relations with the outside world, but will result from our failure to preserve at home, unsullied and uncontaminated, that highest and most sacred attribute of American citizenship, without which all talk of the consent of the governed is but a mockery.

When the civil war was raging with almost unabated fury, Mr. Lincoln, in his Gettysburg address, expressed the opinion, that the contest of arms was to decide, whether the government of the people, for the people and by the people, should perish from the earth. The triumph of the federal armies did not solve that problem; the reconstruction of the South did not solve it, and the extension of the suffrage to all the people of the United States without regard to race, color or previous condition of servitude, not only did not solve, but left it yet more difficult of solution. Manhood suffrage remains to-day an experiment, with the serious phase, that it is an experiment which can not be permitted to fail, if free institutions are to be preserved. Those who look on the manner in which the experiment is being worked out, with complacency and confidence, are unaware of the fact that we are over a slumbering volcano, from which some day an eruption may rain on our devoted heads the ashes of political destruction, as the ashes of death were rained from Vesuvius on the people of Pompeii and Herculaneum.

Under our system of government we gather the consent of the governed from the ballot box. There is, therefore, no

question of greater moment than whether the ballot box does in fact reflect the genuine and unpurchased consent of the governed, and does represent their real will touching the administration of public affairs, by those who from time to time appear to be chosen to places of responsibility, trust and power.

The people of the revolutionary times, whose representatives joined in the declaration that "governments are instituted among men, deriving their just powers from the consent of the governed," did not contemplate the literal application of that principle, and permitted it to enter into practical government under restraints, which at the present time would be regarded not only as intolerable, but as utterly inconsistent with the theory of man's capacity for self-government.

Each of the thirteen original states began by attaching property qualifications to the right of suffrage. Some of them were more liberal than others, but all denied to those who possessed nothing in the way of taxable estate, the right to participate in the affairs of government, at the polls or elsewhere. If manhood suffrage be an indispensable prerequisite to the republicanism, or to the democracy of modern times, our forefathers carried on the governments they instituted through an aristocracy of property, giving no concern to the intelligence or the education or the personal worth of the individual, who was the unfortunate possessor of no estate.

Vermont and Kentucky, the first two additions to the Union after the adoption of the Constitution, set literal examples of governments of the people by the people. More than sixty years elapsed, however, before the last of the original thirteen gave in its adhesion to manhood suffrage, and up to the beginning of the civil war many of the states of the Union denied to men of African descent the right to vote, however wealthy or worthy they may have been.

As late as the end of the first quarter of this century it

was contended by enlightened statesmen, that universal suffrage endangered property and put it in the power of the worthless and impecunious to control wealth and intelligence, and was not to be contemplated except with abhorrence and fear. They called attention to its career in Europe and insisted that it was folly to expect exemption in America from the conditions that at first inflamed, and then destroyed other nations; and they warned those in power that, if they closed their eyes to the evils invariably following manhood suffrage in the countries in which it had prevailed, the delusions of that day would be lamented by posterity in sack cloth and ashes. Those warnings did not prevail, and state after state removed the disqualification of poverty, until color became the only exception to the completeness of universal suffrage, and that exception was removed by the adoption of the Fifteenth Amendment. It will profit us nothing to discuss the efficacy of the reforms that have taken from property its power to control in matters of government. Political rights once conferred can seldom, if ever, be recalled, and are never voluntarily relinquished. It may be possible in a few states, under exceptional conditions, to re-establish property or educational qualifications, but it is far more likely in the future, that suffrage will be extended rather than circumscribed.

We are now face to face with the question, whether suffrage is or is not a failure, and we are to work out that problem in the light of past experience with fear and trembling. Discussing this absorbing question in his querulous, but philosophic way, Thomas Carlyle, fifty years ago, used this language:

"America, too, will have to strain its energies . . . to crack its sinews, and all but break its heart, as the rest of us have had to do, in thousandfold wrestle with the Pythons and mud-demons, before it can become a habitation for the gods. America's battle is yet to fight; and we, sorrowful, though nothing doubting, will wish her strength for it.

New Spiritual Pythons, plenty of them; enormous Megatherions, as ugly as were ever born of mud, loom huge and hideous out of the twilight future on America; and she will have her own agony, and her own victory, but on other terms than she is yet quite aware of."

Since those words were written some portion of America's agony has been suffered and some of her battles have been fought. But the great question of the efficacy of the ballot-box has not yet been settled, and the increase of population, and extension of the suffrage, have added difficulties to that most complex of all our social or political problems, and left the future to determine, whether manhood suffrage is to lead first to anarchy, and then to despotism, or, on the contrary, to demonstrate the falsity of the numberless predictions, that time will prove the incapacity of man for self-government.

This same Carlyle was one of the prophets of evil concerning the American theory of self-government. He had little faith in the ballot-box, and less in the possibility of the ballot being intelligently, patriotically, and honestly used. His belief was, that "it is the everlasting privilege of the foolish to be governed by the wise; to be guided in the right path by those who know it better than they. This (said he) is the first 'right of man'; compared with which all other rights are as nothing—mere superfluities, corollaries which will follow of their own accord out of this; if they be not contradictions to this, and less than nothing! To the wise it is not a privilege; far other use indeed. Doubtless, as bringing preservation to their country, it implies preservation to themselves withal; but intrinsically it is the hardest duty a wise man, if he be indeed wise, has laid to his hand. A duty which he would fain enough shirk; which accordingly, in these sad times of doubt and cowardly sloth, he has long everywhere been endeavoring to reduce to its minimum, and has in fact in most cases nearly escaped altogether."



If, as the philosopher says, it is the everlasting privilege of the foolish to be guided in the right path by those who know it better than they, and the everlasting duty of the wise to assist the foolish to walk in the right path, we have but to secure the honest exercise of the high privilege by the one, and the faithful discharge of the responsible duty by the other class, to render universal suffrage an element of hope and strength, rather than an element of danger or destruction.

Manhood suffrage must unquestionably fail, if the foolish shall persistently refuse to follow the counsels of the wise, and will become a curse instead of a blessing if the wise shall persist in shirking the performance of the responsible duty with which they are charged. It has never been supposed that the mass of mankind—that great body of the people, whose necessities forbid them the leisure to acquire more than a passing acquaintance with current events—can, unaided by men of superior opportunities, satisfactorily discharge their duties as electors, but it is hoped and believed that, by keeping in touch, all in whom the powers of government are reposed, the rich and the poor, the ignorant and the cultured, those lacking and those endowed with wisdom, the body of the electors may prove competent to perform the share assigned them in the administration of government, and to perform it with less of selfishness and with greater regard for the equal protection of the lives, liberty and property of all, than can be hoped for at the hands of an aristocracy of property, however patriotic, intelligent or cultured it may be.

Yes, if these elements could be kept in touch, if the foolish could be induced to respect the rights, to consider the opinions, and to respond to the better influences of those wise enough and patriotic enough to lead, manhood suffrage would not fail of success. But with obstinacy, selfishness and venality successfully combining to keep the different elements of society apart, universal suffrage must of necessity result in

ignominious and discreditable failure, and after such failure law and order must be enforced and the rights of property protected by force, or by fraud, or by the combination of both force and fraud, and free institutions thus rendered a thing of the dead past.

We all recognize as a fundamental principle the truth of the declaration so often made, that in a free government majorities, within certain prescribed limitations, must rule. But if apparent majorities can be, and shall be systematically secured by fraud or force or corruption, then majorities not only will not rule, but, on the contrary, will submit themselves to the customary rule of the minority.

It was said by the elder Adams in his inaugural address that "If an election is to be determined by a majority of a single vote, and that (vote) can be procured by a party through artifice or corruption, the government may be the choice of a party for its own ends (but) not of the nation's for the national good." If a party organization can and customarily does procure majorities through artifice or corruption, and thus continues itself in power, it converts the government into a government of party, it overthrows the government of the people, and, for the time being, establishes an imperialism in the room and stead of a free republic.

Ignorance, selfishness, indifference, venality, passion, prejudice, and party spirit, were all considered and discounted when universal suffrage was conceded; but the inducements to corruption, and the gigantic proportions of the funds it is now possible to raise for election purposes, were then so far underestimated, that in the light of recent events it may be said, they were not considered at all.

Through their contributions to those funds, corporations may, and in some instances do, influence political life to a degree that can not be measured, and that too in the most demoralizing, degrading and dangerous direction.

In this connection, it is but fair to say, that corporations

as a rule do not voluntarily or willingly contribute to campaign funds. Subject, as they are, to legislative and municipal regulation, they can not well resist the "stand and deliver" argument, that certain classes of party managers do not hesitate to use. Many of them find it cheaper to purchase their peace than to defend their rights. Others are compelled to ally themselves with one political party or the other, to secure protection against destructive legislation proposed by politicians, who seek places by urging an indiscriminate war against all kinds of corporate institutions, and by appealing to the passions and prejudices of unthinking electors, who either are not willing, or are not able to distinguish between pernicious combinations, and legitimate enterprise. In defending themselves against these unprovoked and injurious assaults, corporations not unnaturally claim the right to make use of all the customary means of resistance, and insist that they can not be censured for aligning themselves with political organizations equipped to contend with their assailants and ready to protect their allies.

The well grounded criticism of corporations for the abuse of their privileges in their unwarranted interference in public affairs; the prevailing prejudice against and hostility to combinations that have, or are supposed to have, monopolistic tendencies; the proneness of the thriftless and unfortunate to look on success as criminal and to regard wealth as the increment of fraud, extortion or crime, combine to supply a rich field for the labors of the place-hunting demagogue. As the professed friend of the people, he is always ready, in eloquent and soul-stirring language, to proclaim that he speaks for them and not for himself, and that he sacrifices business employments that would yield him a generous competence, in order that he may sound in their ears the note of warning against the soulless combinations created by law to eat up their substance and to fatten on the proceeds of their toil.

Of this class of politicians an eminent citizen of Philadelphia, long since dead, was moved to say: "Their knowledge of themselves inspires a low estimate of others. They distrust the judgment and intelligence of the community on whose passions alone they rely for advancement and their only study is to watch the shifting currents of popular prejudice and be ready at a moment's notice to follow it." They believe "that public life is a game in which success depends on dexterity, and that all government is a mere struggle for place. . . . Our sovereignty, our virtues, our talents are the daily theme of eulogy. They assure us that we are the best and wisest of the human race, and that their highest glory is to be the instrument of our pleasures, and that they will never act, nor think, nor speak but as we direct them."

Give to such a place-hunter a responsive audience, with the soulless corporation, the hungry cormorant, the bloated monopolist, for his theme, and he will "Pour the full tide of eloquence along," till conservatism, fair dealing and common sense hide their heads in shame and, like convicted criminals, seek safety in ignominious flight. To men like these, and to their methods, possibly as much as to any other cause, is to be traced the efforts of corporations to influence public opinion. Compelled to defend just and indisputable rights, not occasionally and at periodic intervals, but at all times and under all circumstances, in sheer desperation, legitimate enterprise identifies itself, and keeps itself identified, with the managers and directors of current politics.

Forced into indefensible alliances, they would gladly escape; compelled to subordinate their private interests to their unnatural participation in public affairs; put upon explanations that can not be satisfactorily made to the better sentiment of the country, corporations find themselves equally unable to command public approval, or to resist the overtures of the hungry politicians they can not afford to defy.

These evils the moral sentiment of the country would correct if that sentiment could make itself felt. Unfortunately, we are fast becoming, if we have not already become, a government of party rather than a government of the people. We no longer discuss the claim of public men in the light of their ability and character as statesmen. The question of preference now turns on capacity for party leadership, and not on ability to point the way to patriotic ends. Unhesitating devotion to the common weal no longer commands the support of those who control party policies and name our public officials.

Party organization is not necessarily or even naturally antagonistic to the public good. The success of a particular party is sometimes essential to the highest interests of the country, sometimes indispensable to the happiness and prosperity of the people, and to the preservation of the fundamental and underlying principles of government. In these cases obedience to party discipline is as patriotic as it is commendable, but when our institutions are free from present or anticipated danger, when the public peace is secure, when a political victory involves no higher or more important end than the distribution of the offices not embraced by the classified service, or the regulation of commerce among the states and with foreign countries, or the promotion of the general welfare through constitutional and customary means, party fealty may become and sometimes does become immoral in its tendencies and demoralizing in its consequences.

When in the heat of a national or state campaign we read of campaign funds running up into the millions; when we see in the daily press lists of subscribers to those funds who are well known to represent and stand for corporate interests; when we contemplate the munificent sums set opposite their names, we can not escape the inquiry, why the moral sentiment of the country remains silent, and why those who believe in clean politics and honest government do not join

in general denunciation of methods, which like those, can but lead to the corruption of the franchise, and end in the debauchery of the public service.

The failure of the great liberty-loving, law-abiding, uncorrupted and incorruptible majority to respond to the dictates of the public conscience, and to act in obedience to their higher instincts, can be accounted for only on the hypothesis of their habitual subservience to the behests of party discipline, or of their inability to rise above the superstitious belief inculcated by party spirit, that those of their fellow-citizens who do not agree with them in politics, can not be safely trusted with the administration of public affairs.

In the language of Phillips Brooks, "The great vice of our people in relation to the politics of the land is cowardice. It is no lack of intelligence; our people know the meaning of the political conditions with wonderful sagacity. It is not low morality; the great mass of our people apply high standards to the acts of public men. But it is cowardice. It is the disposition of one part of our people to fall in with current ways of walking, to run with the mass, and of another part, to rush headlong into this or that new scheme or policy of opposition merely to escape the stigma of conservatism."

The first of these classes is made up of the victims of party spirit, those who at heart loathe and condemn political bosses and their methods, but lack the moral courage to assert their love of country through their personal independence. The second, of those who revel in the excitement and passion which the eloquent and wordy demagogue never fails to arouse. Either class is honest. Either prefers good government to bad, but neither can shake off the burden imposed by the national vice of political cowardice.

"If parties in a republic are necessary to secure a degree of vigilance sufficient to keep the public functionaries within the bounds of law and duty, at that point their usefulness ends. Beyond that they become destructive of public virtue,



the parent of a spirit antagonistic to that of public liberty, and eventually its inevitable conqueror. We have samples of republics where the love of country and of liberty at one time were the dominant passions of the whole mass of citizens. Yet with the continuance of the name and form of free government, but a vestige of those qualities remains in the bosom of any of those citizens. It was the beautiful remark of a distinguished English writer that 'In the Roman Senate Octavius had a party, and Antony a party, but the Commonwealth had none.' Yet the senate continued to meet in the temple of liberty and talk of the sacredness and beauty of the commonwealth, and gaze on the statues of the elder Brutus and of the Curtii and Decii, and the people assembled in the forum not as in the days of Camilus and the Scipios, to cast their free votes for annual magistrates, or to pass upon the acts of the senate, but to receive from the hands of the leaders of the respective parties their share of the spoils, and to shout for one or the other, as those collected in Gaul or Egypt and the Lesser Asia would furnish the larger dividend."

An American soldier and statesman, who had faithfully served his country during a long and eventful life, was constrained to speak these words and to utter this warning to his countrymen sixty years ago, as he was entering on the duties of the highest office of the republic, which duties destiny permitted him to discharge but for the brief period of a single month. His words were intended to emphasize what to him then appeared perfectly clear, that the violence of the spirit by which parties were governed must be greatly mitigated or appalling consequences would follow as the inevitable result.

I may say with reasonable confidence that nine-tenths of the corporations now engaged in shaping public opinion would welcome the opportunity to abandon that policy and gladly confine their attention and devote their moneys to none other than the purposes of their creation. If they could be

relieved from the annoyances and dangers attending the attacks of the place-hunter and the professional agitator, and be protected against the demands of the greedy bosses in charge of party organizations, they would submit without remonstrance to all proper restraints and forget their past political affiliations in the more energetic prosecution of their corporate business.

It is within the power of the right thinking people, who constitute the overwhelming majority of the American voters, to discredit the demagogue as a mischief-making agitator; and to overawe the greedy and conscienceless party managers into decent respect for the statutes intended to suppress law breaking, and to protect the public, including corporations, against being dragooned into contributing funds for the promotion of party success through the corruption of the franchise, but this most desirable consummation cannot be reached without unity of action, nor without concerted, persistent and continuous effort. If but the whole body of respectable citizens would move together, their triumph would be certain.

It is at this point that party spirit exercises its unfortunate influence. It fans the flames of past political antipathies. It appeals to the sentiments of party fealty, denounces party treason and insists that reforms can be had within better than without the party, and that nothing can be more disastrous than the success of the political adversary, which only professes virtuous intentions with the hope of securing the power it is certain to abuse in the future as it has done in the past. Such tactics scarcely ever fail to succeed and with their success the zeal of the reformer abates. Disheartened by defeat, he concludes that the struggle for good government is hopeless and then shapes his future course on the assumption that there is nothing left for him except to make the best of conditions that apparently cannot be controlled. Reformers forget that ultimate success depends on unflagging effort; that constancy and earnestness always tell with the

voters, even when they do not at the moment succeed, and that the potency of enlightened and disinterested public spirit becomes irresistible under the leadership of those who never despair and never forget "that the hour hand must make progress if only the minute hand keeps moving."

To prepare the people for this important, if not indispensable, work a new declaration of independence must be made and a new emancipation proclamation enforced. The absolute right of party managers to direct and control political action, without regard to its effect on public morals or the purity of the public service, must be repudiated, and those who have heretofore subordinated their personal convictions and moral instincts to the dominance of party spirit and party allegiance must cast off their shackles and assume the true position of American freemen:

"He is the free man whom the truth makes free  
And all are slaves besides."

A party may profess the greatest reverence for free institutions, and observe with rigorous fidelity the forms of the Constitution, while in fact it is engaged in establishing the control of a class representing interests not only inconsistent with but antagonistic to the common good. Herbert Spencer taught us that:

"This worship of the appliances to liberty in the place of liberty itself needs continual exposing. There is no intrinsic virtue in votes. The possession of representatives is not itself a benefit. These are but means to an end, and the end is the maintenance of those conditions under which each citizen may carry on his life without further hindrances from other citizens than are involved in their equal claims—is the securing to each citizen all such beneficial results of his activities as his activities naturally bring. The worth of the means must be measured by the degree in which the end is achieved. A citizen nominally having complete means, and

but partially securing the end, is less free than another who uses incomplete means to more purpose."

He is not a good party man who follows his party leadership into paths that lead to unwholesome government, or who approves or condones party methods that contravene public morals or public decency. The true party man is he who insists that the rules prevailing with men of honesty and probity in business transactions, shall also prevail in the conduct of party affairs; who reserves the right, when overruled by his party associates in matters involving honor and fair dealing on the one hand, and political dishonesty, chicanery or corruption on the other, to obey the dictates of his conscience and to walk the path marked out by good citizenship, even though to do so leads to party defeat.

There are times when a party cannot be reformed except by discrediting the managers charged with its leadership, and there is no more effectual way of discrediting party leaders than to demonstrate that their policies and methods lead to inevitable and continuing disaster.

There is a class of corporations to which the line of reasoning heretofore indulged in extenuation of corporate interference in public affairs does not apply. They first make themselves parties to combinations, having in view the control of particular lines of business, or the creation of monopoly, and then seek through political manipulations to protect themselves against the action of the legislatures and the judgments of the courts. Such combinations are opposed to the principles of the common law, are prohibited by the statutes of many of the states, and condemned by congressional enactment; but they continue to exist, and their illegal operations progress without apparent let or hindrance. Every week we read of the formation of another trust of gigantic proportions for the avowed purpose of controlling some line of business in which the general public are vitally interested. Statutes do not intimidate, nor the judgment of the courts deter their promoters. They face public indignation with perfect equa-

nimity. The president and directors of these combinations sit in political conventions and take part in the formulation of party platforms denouncing trusts in the most unqualified terms. These presidents and directors understand that it is one thing to condemn by statute, to occasionally prosecute some insignificant combination in the courts, and indignantly denounce the trusts in party platforms; but quite another, to supplement the work of the legislatures and the courts by organized and aggressive public opinion, against which no prohibited organization detrimental to the public good can long maintain itself.

So long as the active opponents of trusts continue to treat all corporations as equally bad and all combinations of capital as equally pernicious, just that long they will continue to reinforce the monopolists with allies, who have no sympathy for, but are compelled to make common cause with them, in order to protect themselves in the war they are being foolishly and unjustly required to defend.

Corporations owning and controlling the railways of the country represent the greatest combinations of capital. They are peculiarly subject to governmental control and regulation. Almost without exception they are engaged in commerce between the states. That fact warrants intervention by the general government to prevent non-competitive combinations and to protect the public against unreasonable and unjust discriminations. If complete success has not followed congressional legislation in this regard, the enforcement of the present statutes in their spirit and according to their manifest intent may and probably will remove all just grounds for complaint; if not, experience will eventually point out such remedies as may be necessary for the accomplishment of this most desirable end.

Local public utilities, such as gas, electric light, and water works, as also street railways, are from their very nature under the direct supervision of local municipal authorities, and nothing short of the wilful failure of such

authorities to exercise their undisputed powers for the public good, will permit the abuse of corporate privileges by the corporations operating and controlling such utilities.

It is with the industrial combinations that the greatest difficulties connect themselves. These combinations organize under state authority. In the broader sense, they are local and domestic. They are not subject to federal control, except when they can be reached through the commerce clause of the Constitution, and the general inapplicability to such domestic concerns of the powers conferred by that clause is recognized by all who have investigated the question. Creatures of the states, their business operations must in the main be controlled and regulated by the states. Those who demand remedy at the hands, and insist on action by the Federal Congress, content themselves with dealing in general propositions, and have thus far failed to suggest the framework of a statute that will reach the evil; respect the reserved rights of the states, and at the same time stand the test of constitutional validity.

Many of the industrial combinations are directly benefited in their business by the tariff duties imposed on goods imported from foreign countries. Those benefits may or may not be reasonable or legitimate, but they are none the less desirable. Hence, whenever tariff legislation may be pending, or is proposed, the influence of corporate enterprise makes itself felt, and as its representatives profess to speak for American labor, and are always unselfishly devoted to the protection of the American workingmen against the competition of the pauper labor of Europe and Asia, their arguments carry with them almost irresistible force. It is not to be objected that lawful business associations seek opportunity to present their just claims for or against proposed legislation first to the electors, and after the elections to the representatives of the people; but the methods of such presentation may be the proper subject for the severest animadversion. Argument addressed to the reason of those sought



to be effected, is always legitimate, but there are influences more potent than argument, and not necessarily or even usually such as outrage public decency or tend to shock the moral sentiment of the country.

Social considerations, good fellowship, the desire to cultivate intimate relations with those whose names are everywhere associated with wealth and power, with industry, enterprise and progress, control the actions of many who would repel with indignation and scorn a suggestion even remotely involving venality or personal advantage.

Corporate influence exercised through these channels is always for the advancement of corporate business interests and never for the general good alone. It is necessarily unhealthy and demoralizing, and ought to provoke universal condemnation. The danger is all the greater in the fact, that it moves on the lines of propriety and operates through men who always observe the amenities and decencies of life, and whose high position in society, gives the color of respectability to all they may do or say in reference to any matter of either private or of public interest.

Whatever reduces or minimizes the importance of the individual diminishes the sense of responsibility and weakens the force of the obligations of duty that would otherwise impel every conscientious man to their due observance. So long as we unhesitatingly submit ourselves to the necessary tendency of this diminution of personal responsibility, we surrender our convictions of duty in politics to the policies and necessities of our party, and in organized business adventures, we surrender them to corporate interests and advantages. We look to dividends rather than to the approval of a good conscience, and hear with complacency, instead of resenting with indignation, the common witticism, that a corporation is a body without a soul.

The proprieties of the present occasion do not admit of an exhaustive discussion of all the questions involved in the consideration of corporate influence. It is not expected,

and if it were, time would not allow us, to follow in detail all the ramifications, social, business and political, into which the conditions brought about by combination and organization necessarily divide themselves. As organization in politics tends to reduce the importance of the individual elector, so combination in business tends to minimize the consequence of each individual member of the adventure, except it be those entrusted with the active management and control of the organization.

In politics we shall continue to have parties. It is altogether likely we could not administer the government without them. In business, we shall continue to operate, in a very large measure, through the instrumentalities of corporations. We can neither abolish party nor dispense with business organization. Such being the case, it is the more important that public attention shall at all times be directed to the evils and abuses flowing from both organized politics and organized business. Possibly some of those evils are inherent and beyond the reach of remedy, but the effects of some may be mitigated, and the abuses, or at least those abuses fraught with the most destructive or dangerous tendencies, may be wholly eradicated. But these evils can not be mitigated nor the abuses eradicated, except by concerted, aggressive and persistent action on the part of those who set their hands to the work of reform.

Political parties cannot and need not be disbanded. They may be kept in the lines of usefulness and out of the paths of selfishness and wrong by the conviction on the part of those who lead them, that we have a body of independent citizens strong enough to insure victory to the deserving, and pledged to the inevitable defeat of the party that represents class interest as against the commonweal, or which, to insure success, resorts to methods that cannot stand the test of public scrutiny.

Corporate influence intended to affect political life, officiously thrust into party contests, or officiously brought to

bear on legislative action, is inconsistent with good government, a palpable abuse of the corporate privilege, and should be met with public reprobation, whenever and wherever it may make its appearance.

Serious and deplorable as are the evils growing out of corporate influence on political life, unfortunately for the public welfare it is not without potent and efficient allies and co-workers. Other well known and equally indefensible influences are utilized to defraud the ballot, to corrupt the franchise, and to defeat the real and genuine will of the liberty-loving and law-respecting majority. Against the entire brood of political jobbers and venal party bosses, and against every one of their corrupting and unholy methods, enlightened public opinion is under the highest obligations to uncompromisingly set its face.

I am not one of those who indulge in pessimistic fears as to the future. The American Republic will not fall as Rome fell. Our Anglo-Saxon civilization contains the seeds of its own rejuvenation. The body of the American citizens can not be corrupted, or permanently led astray, and when aroused to the necessity for the reassertion of their capacity and of their determination to preserve the free institutions transmitted to them by their fathers, they will not in the future, as they have not in the past, prove unequal to the emergency. It is, however, a pertinent inquiry, and one worthy of serious consideration, whether the present is not the time when lethargy should be shaken off, and a more active interest manifested in the upbuilding of public purity and of political integrity.

In this connection, and by way of concluding the remarks, I have had the honor this evening to submit, I assume the liberty of paraphrasing an extract from a recent editorial by one of the strongest writers and most eminent citizens of my own state.

There must be an awakening all over the country to a keener sense of responsibility, and a realization of the fact

that to retain the republic in its integrity we must be true to the ideals of life; we must be willing to consecrate to the public service at least a portion of our time and a portion of our means. It is not enough that we may live in a community and make money, protected by its laws; but that we should devote to the advancement of that community our thoughts, our goods and our energies. If this be not done; if we value peace above honor; if instead of agitation and resistance we prefer, in addition to the regular taxes, to submit to taxation by political rioters and partisan robbers, we may be certain that life in the republic will be intolerable to the next generation.

Doubting not the integrity of the masses, or their devotion to honest government, I have confidence that our difficulties, present and future, foreign and domestic, will be patriotically and intelligently met and overcome, and that this government of the people, for the people and by the people is not predestined to perish from the earth.

### III

COMBINATION OF CAPITAL AS A FACTOR IN INDUSTRIAL PROGRESS ∴ ∴

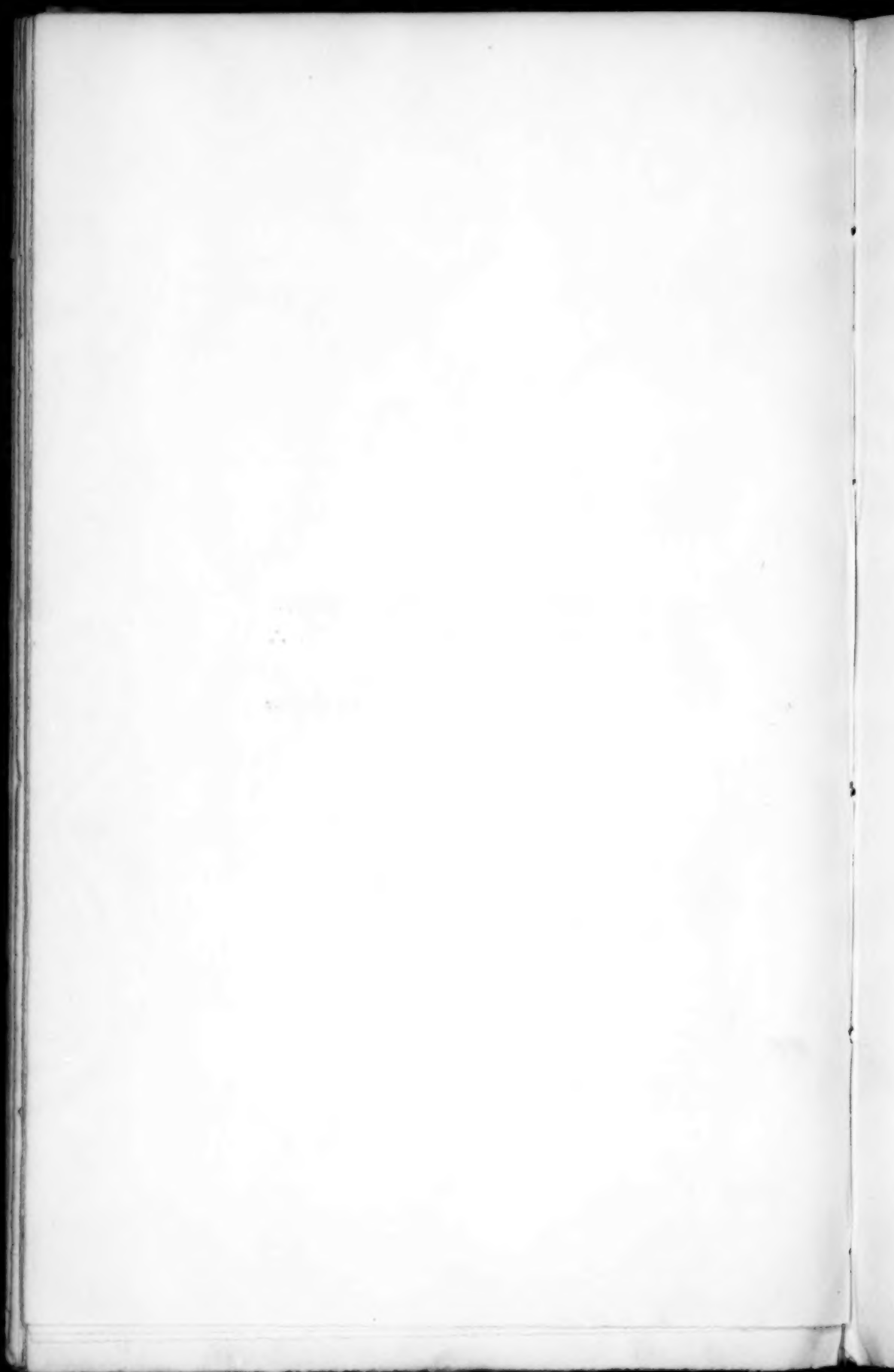




INDUSTRIALS AS INVESTMENTS  
FOR SMALL CAPITAL ∴ ∴ ∴ ∴

BY JAMES B. DILL, ESQ.

NEW YORK CITY



## INDUSTRIALS AS INVESTMENTS FOR SMALL CAPITAL.

By JAMES B. DILL, Esq., of New York City.

### I.

The industrial movement must stand or fall by the proposition whether industrials are or are not to become an investment for the small capitalist.

I have read articles in public print by gentlemen of learning, sometimes by men of high political reputation, stating how industrials were promoted, organized and financed, but some of these gentlemen seemed to deal in matters other than those with which they had large practical experience. I have listened to presidents and professors of institutions of learning upon the promotion, financiering and the launching of industrial combinations. I have read much and heard much upon this subject, but in all frankness I say to you that I have yet to hear from one who has actually promoted, organized and financed a public industrial combination a public statement in detail as to how such organizations are really promoted, organized and financed.

I may add, parenthetically, if you please, that under the topic assigned me to-day I feel it would not be relevant for me to be the first to break this silence.

We are told that combinations are brought about by natural causes, that it is a natural evolution, and while it is quite true that antagonistic competition and business surroundings have tended to bring together the great industrial combinations, yet it has not always been for the good of the public at large that these large combinations have been created. It has sometimes been primarily for the good of the pocket of the promoter and the financier. The result of the promoter and the financier in combinations often appears in watered stocks, and overcapitalization.

The industrial of to-day is not always looked upon as the most conservative investment or as the security most desirable as bankable collateral, because many contain the promoter's reward concealed in the stock issue, resulting often in excessive capitalization. Recognizing this fact the true industrial does not always pay dividends upon its common stock, but quite frequently devotes its surplus earnings to making good the capital issued for good-will or other intangible property, driving out the water, if water there be, and creating a financial reserve ordinarily, but sometimes inaccurately, designated as surplus.

The true industrial withdraws its stock from speculations in the market, aiming to convert its stocks into securities valuable as an investment. The volume of trading in its stocks is sought to be decreased, to make its holdings of stock permanent rather than fluctuating.

Industry always, speculation never, affords a nation security, prosperity and ultimate success. The pursuit of the gambler and the occupation of the merchant are of widely different character. The true industrial differs as widely from the too common speculative specialty that goes under the name of the industrial as the merchant differs from the gambler. Such speculation is the opponent of industry, and speculation and industry cannot go hand in hand in any one organization.

If it be possible for any one man or body of men controlling as officers any industrial corporation, to close any factory or number of factories, to throw out of employment, either temporarily or permanently, large numbers of men; if it be possible that this may be done for the mere purpose of stock speculation, then it certainly follows that there is just cause for fearing grave disaffection. That combination whose energies through its board of directors and officers is mainly given to the Wall street end of the proposition is not an industrial in the true sense of the word. That corporation whose board of directors or officers devotes more time and

more attention to the ups and downs of the market price of its stock than it does to the distribution of dividends among the stockholders, to the increase in effectiveness of production, to the cheapening and bettering of the article produced, is the opponent of every honest combination of capital.

Without seeking to excuse the improper promotion and the unwise financiering, we must recognize the law of supply and demand. People are largely furnished with what they call for. The promoter and the financier, in bringing these combinations together, have had a keen eye to the public demands and in the future will have the same keen eye to what the public will take. If the public demands an investment they will be inclined to furnish an investment; if the public asks for a speculation, or gambling specialty, the promoter will flood the country with these until financial ruin stares many in the face.

As long as the American public are willing to gamble with the industrial interests of the country, just so long will the promoter force the water into the great arteries of trade, subverting the great industries of the nation into the mere tools for the gambler and the speculator, eventually resulting in the great injury to a nation of industries. This by no means excuses vicious promotion, or improper financiering, but speculation tends to encourage both evils.

There are certain invariable marks of promotion, speculation and schemes which will point the true character of the organizations beyond the possibility of a mistake. When one finds in the charter the language found in so many: "The stockholders shall have no right to examine the accounts, vouchers, books, papers of the company, except so far as they are granted by statute," the conclusion is inevitable that information will not be freely given to the stockholders.

A provision that the directors shall at the first election be divided into classes, a majority elected for a maximum term of years, suggests that those in control are not willing to

leave to the stockholders the question of whether they prove to be the proper managers of the business, are not willing to delegate to the stockholders in their annual meetings the power to displace the board, if the management is either mistaken, erroneous or even fraudulent. Thereby the promoters and financiers perpetuate themselves in office for a term of years, leaving the stockholders without recourse, by an examination of the books, to discover whether or not the business is conducted properly, taking from the stockholders the right to go to the stockholders at large and to open the question of the propriety or impropriety of the board of management.

There are industrials true and fictitious, there are wolves in sheep's clothing parading as industrials. The classes are clearly distinguishable if a proper examination is made. We have professional men who examine titles to real estate. We have Title Guarantee Companies who issue policies of insurance on titles, but the people seem to have no bureaus of information as to the industrial promotions and gambles that are so freely offered to the public, upon which they can rely with safety. The Exchanges do not seem to have resulted in keeping stocks improperly designated as industrials from the market.

Industrial combinations are producing a new class of financiers, a new order of corporation men. Business character and personal character cannot, in the long run, differentiate widely. Every corporation which attempts to go to the public and to place its securities should be held to the responsibility of selecting men of integrity and standing as its officers and directors. The institution which places stock manipulators and speculators in charge of its affairs should be promptly classified. The company which fails to put men in its board who feel themselves charged with a large and public duty toward its stockholders should fail to find a market for its securities.

If the journals of trade and commerce in our great



cities would accurately and impartially analyze the charter and by-laws of each corporation whose stock is to go to the public, the public would soon be educated as to the difference between the industrial and the Wall street gamble.

Panics would be confined to the promoters, and not extend to the investors, if the public examine first, invest afterwards. No man would invest \$1,000 or \$10,000 in the purchase of real estate, or loan that amount on real estate as security, without an examination of the property, a knowledge of its value, a certainty that it actually exists, and assurances that the title is good.

Use the approximately same care in the investment of \$1,000 or \$10,000 in an industrial security, and the first thing an investor will do, will be to demand an examination of the certificate of incorporation and the by-laws of the company. Although the stock is wholly dependent on the certificate of incorporation (sometimes called the charter) and upon the by-laws, yet the average man as a rule does not ever ask to see the charter or the by-laws. If every investor would insist upon seeing and understanding the charter and by-laws, and as well an accurate financial statement of every company before he would buy the stock, it would produce a revolution in corporate matters.

The law of supply and demand is the strongest law that can be invoked, and if there is a demand for speculative specialties in this country, the so-called industrials will be put together to answer that demand, rather than a demand for honest investment on the part of permanent investors.

It depends upon whether the investor demands information as to what he shall buy, as to whether he selects and exhibits the same care in the purchase of industrials as he would in the purchase of a horse, as to whether he exercises a fraction of the care in the purchase of industrial investments which he does in the purchase of the same amount of a real estate investment.

## II.

The entire country is demanding secure, interest-bearing investments in small denominations. The industrial combinations of to-day should furnish such investments. To-day the capital of corporations of integrity is sought for by investors for the returns which they afford, and the safety which they give.

Too many so-called industrials are not true industrials. If and when the industrials are properly classified, put upon a business footing, fictitious valuations adjusted, then, and not before, will industrials as a class become an investment.

The fact that the stocks of any company are largely the subject of speculation is an argument against its soundness and its integrity.

When a stock becomes an investment, then we are assured of the stability of the enterprise, we are certain that the business is being conducted for the benefit of the stockholders as a whole, rather than for the benefit of the few in power, by means of speculative enterprises. When an industrial combination places its securities upon the level of true investment for small capital then, as to that corporation nine-tenths of all the difficulties and doubts surrounding the present evolution of capital and combination are solved and settled.

The relation of labor to great combinations of capital is largely solved when the laboring man owns and holds as investments the stocks of the corporation. That corporation whose stocks are truly an investment, which takes the place with the laboring man of the savings bank, but at 6 per cent. instead of 3 per cent. interest, is on a sound basis and is not in conflict with the laboring man because he is a part of the corporation itself.

The question is often raised whether the real estate investment is the best for the laboring man. It has been argued that that laboring man who owns his own home instead of renting one, is so tied down that he is not able to avoid the

cutting down of his wages or to move elsewhere if higher returns are offered for his labor. The converse of this proposition appears when the laboring man holds the stock as an investment.

### III.

Finally, the question of the investment in industrials is not to be discussed from the standpoint of the promoter, the financier and the banker, but from the point of the ultimate distribution of industrial securities, that is, of the investment by the people at large, the small capitalist.

By the small capitalist, I refer to that class of men who have from \$100 to \$10,000, or more, to invest, and who, according to the argument of those opposed to combinations, are forced to withdraw their capital from mercantile business because of the pressure of competition resulting from combinations or from other results of the organization of capital. It solves the question of the small merchant otherwise perhaps forced out of business by competition.

If we accept the statement as accurate, that the man with \$10,000 invested in the dry goods business in the city of Philadelphia, may be driven out of business by reason of the greater inducements offered to the public by such business houses as that of Mr. John Wanamaker, then it is equally important to this man whose \$10,000 has been withdrawn from business that it should be reinvested with more security if with perhaps slightly less income from the capital.

The safety of industrials lies in the investment by the small capitalist rather than the large capitalist because, so long as the control of these large corporations is wholly in the hands of the large capitalist the corporations themselves may be managed for the best interests of the large capitalist rather than for the individual stockholders and the country.

The question then may possibly be, how can the majority stockholder make the most money, and if that is to be made best in the way of speculation, perhaps by buying and selling

the stock, or by the artificial raising and lowering of prices. The decision may not rest upon what is for the good of the many, but what is for the good of the few in control. As it is for the good of the industrials themselves, so it is for the people at large, that the small capitalist, the many capitalists and the many stockholders, hold the control of the company through its stock rather than to see it in the hands of the few or possibly the one.

I am forced to treat the subject with brevity and without due explanation or enlargement, a difficulty readily understood when the breadth of the topic is comprehended.

I do not desire to be understood as urging in the present state of affairs careless investments in the stock of all the so-called industrials, nor as suggesting that the common stocks of some so-called industrials are to be regarded as proper investments. I desire to be understood as suggesting that the industrials so-called of to-day include many false industrials; that the true industrials should be distinguished from the false, and that the true industrial is benefited by the investment of the small capitalist, and, on the other hand, in the true industrials (not in the speculative specialties) the small capitalist should find, and often will obtain, an investment reasonably safe and, by reason of the earning capacity of the industrial, productive of a larger income. To the man who needs 6 per cent instead of 3, the true, not the fictitious, industrial should present an opportunity for investment.

The suggestion attributed to Professor Hadley (perhaps erroneously) that the remedy for vicious promotion and improper financiering was the ostracism of the promoter and the financier to some seems to fall short of practicability. The principle is perhaps feasible applied to the stocks rather than to the men who made them, and I am urging that when and if the people discriminate between the good and the bad and ostracize by refusing to invest in the bad, that the occupation of the manufacturer and promoter of the false

industrial will cease to be a profitable one. Certainly the proposition must meet with approval that the nearer the corporation is managed to the line of the true industrial, which aims to make its securities honest and productive investments, to that extent the industrial movement will be improved.

It is also safe to assume that when and if the true industrial is evolved out of the present state of affairs that then the true industrial will be upon a better footing, if its stocks are widely scattered and firmly held by small investors throughout the country.

Combinations of capital improperly organized, managed and conducted for a purpose other than that for which they are apparently incorporated, viz., to conduct an industry on industrial lines, are an evil. Honest corporations, honestly organized, managed and conducted with a single eye to conduct a legitimate industrial business, whose capital is widely distributed, whose stocks are an honest investment for capital small and large, of such corporations we may confidently assert they are a lesser evil if we cannot agree that such corporations are a positive good.

In December last, before the American Economic Association at Ithaca, I had occasion to say that

"It seems true that any tendency in any corporation to have two interests in the business equally important and equally engrossing the attention of the officers, the one the business end of the corporation, and the other the speculative or Wall street end, is a tendency which may be, with emphasis, pronounced dangerous; dangerous to the corporation itself, as exposing it to attacks from sources other than those of the business itself; dangerous to the officers of the corporation, as tending to take their attention from the one and only end and purpose of the corporation, viz., the betterment of the industry in hand; dangerous to the stockholders, as furnishing them a false and unwarranted indication of the progress, or, as the case may be, the failure of the business itself,"

and I may add that recent events have not changed my opinion in this respect.

It is a matter of congratulation that the consideration of industrial combinations has moved up apace from the original standpoint from which it was first discussed. Mere denunciations, the simple calling of names and the use of adjectives and passionate declamations have been clearly demonstrated as lacking the weight of statements of fact and as failing to enlighten the public upon what is to-day a topic of pre-eminently public interest.

Not only has the manner of discussion been elevated, but the view point has been carried upwards as well. The main question to-day is not whether the washwoman buys her small quantity of kerosene at eight cents instead of six cents a gallon, the wholesale price, but rather whether the public as a whole are benefited by combinations of industrial capital and benefited, not only as consumers, not only as producers, but what is the finality of the question, as widely distributed investors of capital.

The results of public discussion on both sides of the question have been to bring the thinking men of both parties more nearly in accord, and with the result that the corporate standpoint has been elevated.

Criticisms made upon corporations and upon corporate methods have not always been without foundation. Men of integrity and honesty of purpose, among whom Attorney-General Frank S. Monett of Ohio stands prominent, have done much to elevate the standard of corporate morality in attacking corporate evils. Instead of disregarding the statements of such men, the wise corporation lawyer carefully weighs them and while from a corporation's standpoint one may not always agree in detail with the learned attorney-general, nevertheless, the corporation lawyer profits by his suggestion and endeavors to avoid being unduly subject to fair criticism in these respects.

Corporations of integrity are demanding that the public



investigate as between themselves and others, in order that their class may not be kept down to the level of those corporations which are otherwise situated. They are demanding, from a corporate standpoint, that the people shall become intelligent upon the subject of industrial securities, in order that the good industrial securities may not suffer with the bad.



THE EVOLUTION OF MERCANTILE  
BUSINESS ∴ ∴ ∴ ∴ ∴ ∴ ∴

BY HON. JOHN WANAMAKER

PHILADELPHIA



## THE EVOLUTION OF MERCANTILE BUSINESS.<sup>2</sup>

Address of HON. JOHN WANAMAKER, Philadelphia.

My topic is one car of the long train made up by the general subject of the afternoon—"Combination of Capital as a Factor of Industrial Progress." This annual congress forms a kind of sounding-board for live questions for the entire country, and because of this I wish to contribute what I can to the general stock of information.

Evolution is that series of steps through which anything has passed in acquiring its present characteristics. The term "mercantile" covers everything relating to trade and commerce. It was from a business point of view that this city, in which the American Academy of Political and Social Science to-day raises its sounding-board of live questions for the whole country, united some years ago its dozen or more separate districts and townships into one compact municipality, making possible an improved and economical city government.

Long since the slow movements of transportation by canal gave way to quick railroading. Naturally it was only a question of time for the sailing ship and slow freighter to be superseded upon the ocean by the fast steamship to expedite commercial transactions. The exigencies of changing markets, the factors of time, fashions, seasons, the value of capital locked up, compelled the initiation of the order of progression still going on throughout the mercantile world.

The first notable change in the conduct of commercial affairs was the partial withdrawal of agencies, commission houses and jobbing houses from Boston, New York and Philadelphia, and the establishment of offices and warehouses in the Western cities in the interest of lower freight rates and saving of time and expense to buyers coming from the West to the East.

As late as forty years ago, or before the war, the transaction of business in producing and distributing merchandise required many agencies: the manufacturer, importer, commission men, bankers, jobbers, commercial travelers, and retailers.

Until twenty years ago trade rules limited the sales of manufacturers to commission men, and those of commission houses to jobbers, so that the only market door open to retailers was the jobbers, whose goods were loaded, when they reached the retailer, with three or four unavoidable profits incident to passing the various fixed stages toward the consumer.

The conditions governing the placing of goods in the retailer's hands were not only heavily weighted with expense, but, in the main, the retail merchant was badly handicapped as a rule by

- (a) Small capital, commonly borrowed by long credit for merchandise.
- (b) Necessity of selling upon credit.
- (c) Necessity for larger percentage of profit.
- (d) Impossibility of utilizing to advantage store and people all seasons of the year.
- (e) Non-accumulation of capital.

The consequence was, according to accepted statistics, that but four out of every hundred merchants succeeded in business. Getting a mere living forty years ago was generally secured in part by the occupancy of a part of the store premises as a residence. Naturally, an undercurrent of discontent with these conditions manifested itself, protesting against two or more prices for the same article, meagre assortments of goods, high prices and the custom that probably grew out of one rate to cash buyers and a different rate to buyers upon credit.

The Centennial Exposition of 1876 was, in my judgment, the moving cause of a departure toward general business by single ownership. The rising tide of popular desire to



assemble under one roof articles used in every home and with freedom to purchase was a constant suggestion in 1876, not alone because of its convenience, but because to some degree it would form a permanent and useful exhibition. This idea culminated in the formation of a Permanent Exhibition Company, which succeeded the Centennial. Being located in Fairmount Park and not in a business centre, and without skilled management, the scheme was abandoned in a short time.

Up to 1877, so far as now known, no extensive, well-systemized mercantile retail establishment upon a large scale existed in the United States. The nearest approach was the A. T. Stewart store in New York, which limited itself to dry goods of the higher class, until the death of Mr. A. T. Stewart, when it took on lower classes of goods, and a wider, but still limited scope.

That Centennial Exhibition in 1876 at Philadelphia, the principal manufacturing centre of the country, the first great exhibition in America, opened a new vision to the people of the United States. It was the cornerstone upon which manufacturers everywhere rebuilt their businesses to new fabrics, new fashions and more courageous undertakings by reason of the lessons taught them from the exhibits of the nations of the world. The continuing outgrowth of that exhibition has revolutionized the methods of almost every class of mercantile business in the United States.

The tendency of the age toward simplification of business systems and to remove unnecessary duplication of expenses, awakened throughout the United States a keen study of means to bring about a closer alliance with the producer and consumer. Almost simultaneously in a number of cities, long-established stores gradually enlarged and new stores sprang up to group at one point masses of merchandise in more or less variety. The movement everywhere arrested attention and provoked discussion because of the approval and practical support of the people at large.

Though there probably was never a time in any city that there were not bankruptcies of merchants and vacant stores, yet after the opening of the large stores, it everywhere became common with storekeepers and renters to charge all the causes of disaster to the large stores, then and now commonly called department stores, and an unsuccessful effort was made to decry them as monopolies.

For the time being, and even now, to some extent, prejudice and perhaps unconscious selfishness blinds a part of every community upon public questions. The inequality of talents and the unequal application of individuals must always carry some to the top and others to the lower places in all pursuits of life. The highest statesmanship thus far known has not been able anywhere in the world to maintain a permanent equilibrium for the slow, slovenly and misplaced workers with the thrifty, well-trained and properly fitted toilers, and criticism begins whenever and wherever one man and his family gathers a business that outgrows their own hands.

Whoever conquers a higher place than his neighbor is supposed to face a commanding position, that at least makes his business way more difficult with his fellow tradesmen. Doubtless there must be some disadvantages arising from large single businesses of every kind. The growth of our splendid free libraries will to a certain extent curtail the sale of books and affect other established libraries; the ever enlarging and wonderful facilities and inexpensiveness of the universities and colleges of learning will interfere to some degree with many private academies and schools. The trust companies that undertook insurance of real estate and titles and conveyancing, and who became banks of deposits, interfered with the lawyers and bankers. The trolley affected the business of the horse dealer. The large stores certainly affect a certain part of the small stores. Neither well-dressed ignorance nor well-satisfied storekeeping ownership can argue down that fact.

In the olden times when any city was smaller the advent of even one more small store affected every other store in the block in which it located, mayhap in the entire city. The thing to be considered, and considered fairly from every point of view, is what the large single ownership businesses contribute to the well-being of the public to counterbalance any disadvantages arising from them.

First of all it must be remembered that society is not constituted for the benefit of any one particular class of the population. Economic questions cannot be voted on by any 10 per cent of the people; the other 90 per cent must have their say. Without sentiment or prejudice, the interests of all must be justly weighed and the greatest good of the greatest number must be gained.

I respectfully submit that the evolution in mercantile business during the last quarter of a century has been wrought not by combinations of capital, corporations or trusts, but by the natural growth of individual mercantile enterprises born of new conditions out of the experience, mistakes and losses of old-time trading; that the underlying basis of the new order of business and its principal claim for favor is that it distributes to the consumer in substance or cash compounded earnings hitherto wasted unnecessarily on middlemen; that thus far the enlarged retailing has practically superseded agents, commission houses, importers and large and small jobbers, thereby saving rentals, salaries and various expenses of handling; that the establishing of direct relations with mills and makers proves to be not only desirable for the saving of such costs as are dispensed with, but because less risks are incurred in preparing products and finding quick markets, thereby favoring lower prices; that the people must be taken into the equation when considering the right of certain businesses to a title of life, as they are responsible for the new conditions, highly value and heartily support them.

It is an old axiom that the water of a stream cannot rise

beyond its level. Neither can any business rise or thrive except at the will of the people who are served by it.

I contend that the department store development would not be here but for its service to society; that it has done a public service in retiring middlemen; that its organization neither denies rights to others nor claims privileges of state franchises, or favoritism of national tariff laws; that if there is any suffering from it it is by the pressure of competition, and not from the pressure of monopoly; that so long as competition is not suppressed by law, monopolies cannot exist in storekeeping, and that the one quarter of the globe that cannot be captured by trusts is most assuredly that of the mercantile trading world.

I hold that the evolution in trade was inevitable, because it was water-logged by old customs that overtaxed purchasers; that there was at work for a long time a resistless force moving towards the highest good of humanity; that the profit therefrom to individuals who have risked their own capital, as any man may still do if he chooses, has been insignificant, compared to the people benefited both by the cheapening of the comforts of life and by the improved condition of persons employed.

Philadelphia is believed to be a buying centre for 3,000,000 people. If each of them in a year's purchase of personal needs and home necessities saves on an average ten cents a day, the saving is \$10,095,000 in a year. Suppose it be but half that amount, there is still five millions to the good of the people to be put into their savings or their pleasures.

I may be asked how such a statement can be certified to. I reply, I am not offering this information as a statement of fact, because no statement can be made upon accurate statistics of the amount of merchandise purchased each year for individual consumption. I submit this as a fair estimate from an experience of twenty-five years and more of careful study, because I desire to be a witness for the truth, that it

may be used for what it is worth in discussing economic and social questions.

I can, however, be more specific in pointing out the effect of modern retailing upon prices:

*First.—Prices realized by the producer.* As he sells in large lots to single firms, whose outlet he becomes familiar with as to quantities and qualities, the producer is able to count more surely upon steady employment of his work-people, and having but one risk instead of many, and smaller expenses in handling goods, can without sacrifice of his own profit, materially reduce the price of goods.

*Second.—Prices paid by the consumer.* The reductions of the producer, plus the lessened costs of concentrated distribution by the retailer, are turned over to the consumer. Further, the variety of goods upon sale by the large retail house, unlike the exclusive merchant having only a two-season business and sometimes only one at the holidays, does not require profits from two or three months' sales to bear the year's rent, insurance and clerical force. An all-year-round business, bringing a steady current of buyers, is the essential thing to use buildings and clerks to advantage and warrant small profits.

It is an easily proven fact that the operation of the American retail system has reduced the prices of many classes of goods one-half in twenty years. But for the length of this paper I would add items in books, bicycles, furniture, woolen dress goods, clothing, housefurnishing goods and china. There are other causes of reductions operating in some instances, but a prominent cause is the bettered condition of retailing.

There are some who claim that the reduced cost of quinine was the removal of the tariff, but the fact is the Britons appointed a commission to learn the causes of its scarcity, and who, to reduce its price, sought the proper soil for the growing of abundance of trees, and thus increased the supply and lowered the price.

The evolution in American trading has planted trees that have borne good fruit for the people.

General Grant, in proposing the health of Sir William Armstrong at a dinner, laid his hand upon a hundred-ton gun and said the inventor of it had produced the most powerful peace-compelling implement the world had ever seen.

I believe the new American system of storekeeping is the most powerful factor yet discovered to compel minimum prices. Perhaps some one will ask what relation reduced prices of merchandise have upon labor. It is a noticeable fact that lowered prices stimulate consumption and require additional labor in producing, transporting and distributing. The care of such large stocks, amounting in one single store upon an average at all times to between four and five millions of dollars, and the preparation of and handling from reserves to forward stocks, require large corps of men. Under old conditions of storekeeping a man and his wife or daughter did all the work between daylight and midnight. The new systems make shorter hours of duty and thus the number of employes is increased, while many entirely new avenues of employment for women are opened, as typewriters, stenographers, cashiers, check-clerks, inspectors, wrappers, mailing clerks and the like. The division of labor creates many places for talented and high-priced men, whose salaries range alongside of presidents of banks and trust companies and similar important positions. It is universally admitted that the sanitary conditions that surround the employes of the large stores are better than in the old-time smaller stores and that employes are considerably better paid.

Inventions and new processes do not destroy employment any more than the sewing machine or typewriter or Mergenthaler typesetting machine has done so. I grant that in these and many similar cases the lines of employment have changed, but the newspaper adds thousands to its circulation by being ready hours sooner for mails to carry it to distant points, and the sewing machine and typewriter



machine have, like the uses of electricity, telephone, etc., created work and employment that did not previously exist.

Taking the number of employes in the old-time smaller store at an average of five, it would require, when the full complement of employes are on the pay-roll of a representative large store, as many as 1,200 stores to furnish as much employment, while the total payments of salaries would be very much higher in the large store than under the small store system.

Some of the large stores are commercial universities, where the young people are in classes in the evenings under competent teachers, and engaged upon the practical work of the store during certain hours of the day. A part of the new business is the Mutual Benefit Association, which is managed wholly by a board of representative employes, through which, in cases of sickness, accident and death, benefits have been given from 1882 to 1899 amounting to two hundred and forty-six thousand two hundred and thirty-nine dollars and twenty-seven cents (\$246,239.27), nearly a quarter of a million of dollars.

In addition to the usual salaries fully up to and believed to be above the level of salaries usually paid, one mercantile firm is known to have paid to its employes by various schemes of co-operation the sum of six hundred and ninety-seven thousand four hundred and twenty-eight dollars and twenty-three cents (\$697,428.23), nearly three-quarters of a million of dollars—during a period of 1888 to December 31, 1899.

What is the effect of the modern retail store upon competition? Are its tendencies monopolistic in the control of merchandise or of trade? I counted yesterday the number of mercantile licenses of dealers, places and stores in Philadelphia in the year 1870. There were 16,560. To-day I obtained the number of notices of mercantile licenses thus far sent out in Philadelphia representing the stores and

places of business, and the figures given me are a minimum of 34,000, with an additional number yet to be issued.

The population in 1870 was 674,022, twenty years later it was 1,046,964, and is now variously estimated at from 1,250,000 to 1,300,000. The number of stores in 1870 (16,560) to the population of that date was 245 for every 10,000, while at the maximum estimate for 1900 the number of stores is 267 for every 10,000 persons. The increase in the number of business dealers has more than kept pace with the growth of the population.

Very few, possibly not more than 5 per cent of the retail stores of the United States are incorporated. They are as a rule under private individual ownership, and their business enterprise represents capacity and capital coupled with executive ability. It is not always the result of generalship; oftener it is, that it is "dogged that does it." Of such incorporated stores there are in this city twelve that did not exist in 1870 upon their present plan which furnish employment, by careful and, I believe, accurate estimate of 15,270 persons, a number almost equal to all the stores existing in 1870.

Extensive retailing in this country is the product of competition in buying and selling for there does not exist in retail business any known combination for the control of unpatented and unpatentable merchandise, nor for the fixing of prices in the interests either of merchants or manufacturers. The entire practical influence of the modern department store is powerfully against monopoly in any branch of manufacturing or selling. Retail merchants, in common with the public, may be at times for brief periods subject to combinations of makers of goods to control prices and create profits, but they are not, and never have been, parties to such measures, at least so far as publicly known.

If all the storekeepers of any one city were to combine, such a combination would not stand twelve months because of the power of manufacturers to become retailers, and

further, such a city of combinations would be overwhelmed with independent storekeepers from every other city, who would very properly expect and command the support of the people.

Public service is the sole basic condition of retail business growth. To give the best merchandise at the least cost is the modern retailer's ambition. He cannot control costs of production, but he can modify costs of distribution and his own profits. His principle is the minimum of profit for the creation of the maximum of business. The keen rivalry of retail trading is inimical to a combination between different and competing firms and companies. Such a combination would advance prices and diminish consumption and increase cost of production. The vast varieties of merchandise required by the modern retail store make combinations for the control of articles in process of, and possible of manufacture in every part of the world practically impossible. It is possible for retail merchants in several localities to combine purchases for the sake of economy, but such co-operation differs widely from the organizations commonly known as trusts. Neither would it affect retail prices save to reduce them.

Any control of the retail trade attainable rests entirely upon superior service and lesser prices, and must always be an unknown, or at least a changing quantity. It can never be vested permanently as a possession in any single hands, nor in any group of organizations. Popularity, founded upon distinct actual worthiness, is its only power to command. Success in some branches of mercantile life has its intense individuality, and is a matter of intense personality, much the same as in the journalistic and other learned professions. Only when personal ability and character can be translated into a franchise, can a retail business become a valuable entity. Until then merchandise, real estate and plant, such items as have commercial value, are its only assets.

I fully agree with the President of the United States in his last message, where he says:

"It is universally conceded that combinations which engross or control the market of any particular kind of merchandise or commodity necessary to the general community, by suppressing natural and ordinary competition, whereby prices are unduly enhanced to the general consumer, are obnoxious not only to the common law, but also to the public welfare."

The evolution in business which I have endeavored to discuss has not sought nor has it the power to limit production or stifle competition or raise prices. On the contrary, its chief objectors are those who claim that it makes prices too low. It affects articles of supply of every home and of so many thousands of kinds and ever changing character that no other restriction can obtain than the natural demand. The fact that it deals with distribution and affords intelligent and economic treatment of merchandise increases employment.

It has demonstrated advantages to the public hitherto not common, if at all possible, to former systems. In increasing values of real estate, wherever large businesses are located, smaller stores crowd around them, in some instances changing the values of an entire neighborhood. Statistics prove that it does not anywhere crowd out competent and useful merchants. It saves a multiplication of agencies to the benefit of the consumer in reduced prices.

It introduces into mercantile business a measurably good civil service and provides a systematic commercial education for beginners in business in many business places. It elevates the position of employes, the large number of persons required, affords self-respecting assistance to employes in misfortune, and for the losses arising from sickness and death. It offers opportunity to educated business people of advancement and earning power not possible otherwise.

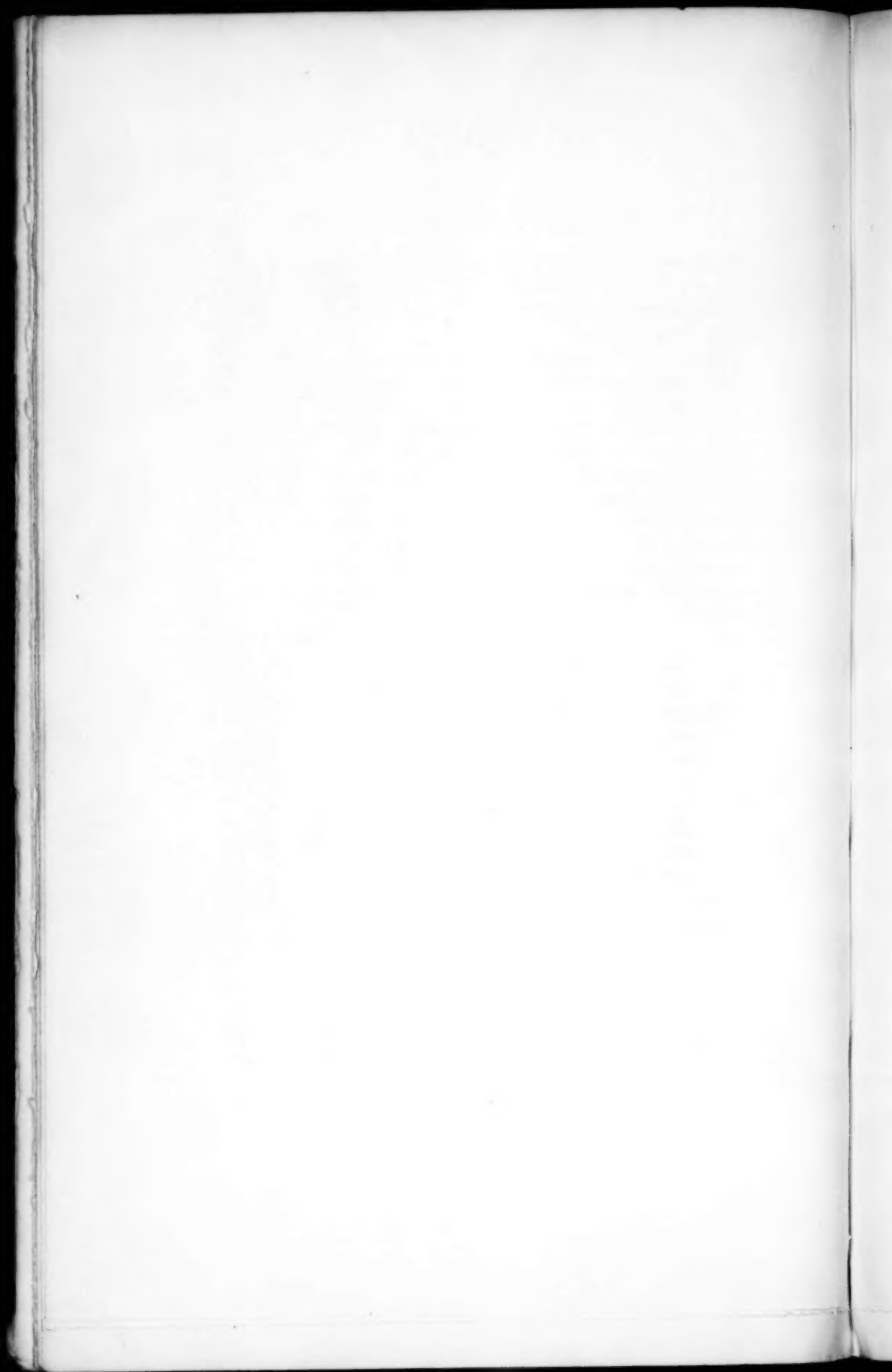
Its system of prices, guarantees and return of goods for

refund, not as a favor but as a condition of the contract of sale, is a boon to the ignorant and hasty buyer and to the public generally, not known until introduced by the new order of business.

The alteration in business conditions in the last quarter of the century has not only removed oppressive burdens resting on the public and added to the safety of investments in manufacturing, but it must surely reduce the number of wrecks along the shores of mercantile life.

The elevation of the standards of trade and business transactions must raise the level of the mercantile calling. There will come again a new race of merchants like Amos Lawrence, of Boston; William E. Dodge, of New York; Samuel Budgett, the Morleys, father and sons, the Copestakes and George Moore, of London; William Ewart, of Belfast, and Madame Boucicaut, of Paris.

It rests with the people to commend and command what serves them best. It is only when the fuel ceases that the fires of good government or good business methods burn out. If the public chooses to permit unwarranted taxation or restrictions upon private business enterprise, large or small, that cheapens whatever enters into the daily wants of every home, it only adds to the expense of living. Whatever the fixed charges of business are, whether they come from wastefulness or ignorance of merchant or legislator, it is the consumer who in the last analysis foots the bill. The keys of every public question are in the hands of the people, and it is the people alone who, by neglect and discouragement, slow up and stop the wheels of progress.





THE INTEREST OF LABOR IN THE  
ECONOMIES OF RAILROAD CON-  
SOLIDATION ∴ ∴ ∴ ∴ ∴ ∴

BY WM. H. BALDWIN, JR.,

PRESIDENT OF THE LONG ISLAND RAILROAD



## THE INTEREST OF LABOR IN THE ECONOMIES OF RAILROAD CONSOLIDATION.

WM. H. BALDWIN, JR., President of the Long Island Railroad.

It is my purpose to refer briefly to the general questions affecting labor, by reason of the consolidations of railroads. Any attempt to reach conclusions based on statistical averages will be avoided.

The limitations and qualifications necessary to be considered in comparing average wages for different periods, make such comparisons misleading. My position will be sufficiently proven by the testimony of the employes themselves. An exhaustive study of the question will not be attempted. Reference is made particularly to the five classes of labor employed in transportation service, as representing special classes of expert labor.

The extraordinary growth and consolidation of railroads in the United States and the development of trade union organizations in railroad service, offer an instructive example of the constantly increasing interdependence of labor and capital; such interdependence increasing in intensity in proportion to the increased combinations of capital. The results in this particular industry may well be applied to large combinations of capital and labor in other modern industrial pursuits. To appreciate the significance of the value of railroad consolidation to the public, it is only necessary to attempt to conceive of a return to the former conditions. The small independent railroads with their relatively small number of employes, each road with its own standards of equipment dependent upon the idiosyncrasies of its principal officers or directors; each road with responsibilities to the public as a carrier only to the extent of its own short line—all these limitations suggest a local independence which would permit to the railroad the employment of labor

on the basis of "supply" for its small demands. On the other hand, the gradual growth of large systems composed of many such small lines, produces a new and constantly growing responsibility to the public, until finally a point is reached where the law of supply and demand affects but remotely the skilled labor necessary in transportation service. In the last analysis, of course, wages are controlled by the law of supply and demand, but with increased complexity in transportation, large bodies of expert men, as a matter of fact, cannot be replaced within a reasonable time, and without so disturbing the service that the public would not permit a great transportation company to solve an important labor problem by so slow working a law. The function performed by railroads has become too important to the body politic to permit of any solution of these serious labor and wage questions, except by intelligent consideration on the part of the representatives both of the management and of the employes.

The effect of consolidation has brought many good results to the employes: an increased ability on the part of the railroads to pay higher wages; to employ more men; an improvement in standards of track and equipment, which has reduced the hours for a day's work and has made the service less dangerous. It has also made the employment of men in the service more regular throughout the year and thus kept together a regular force, and has developed a code of standard rules, governing the army of employes, which have dignified their employment and made more permanent their positions.

These are some of the most obvious advantages to labor resulting from the constantly increasing combinations of capital in the transportation service.

The ability to pay higher wages is due directly to the improved efficiency of the physical departments of the railroads, and the economy in cost of transportation produced thereby.

The short independent road, with its local traffic, gradually began to receive more and more through traffic from its connections. Such through traffic, naturally, was principally of a high class and carried at high rates, by reason of the crude conditions of service and the practical inability of any one of the lines, as a part of a through line, to increase its efficiency advantageously so long as other parts of the route were of a different standard. In certain respects the weak line in a series of through lines is like the weak link in a chain. The fifty-ton freight car loaded to its capacity could not be hauled over a bridge which was built for a ten-ton car and a twenty-five ton locomotive. The different standards of cars, the different gauges of track, the necessary transfers of freight at terminals, the rebilling of freight at junctions—with all the consequent delays—naturally led to the necessity for the elimination of such difficulties. From the fifty-pound iron rail and the ten-ton capacity car there has been developed the one hundred-pound rail, the fifty-ton car, the reduction in grades, the powerful locomotive, a reduced cost in operation and, as a final result, an enormous growth of the business interests of the country. This development has been made possible alone through increased financial ability by reason of larger security in the control of traffic.

Consolidation has not made, in my experience, considerable immediate savings in cost of operation. Oftentimes a small road may be added to a larger system and some of the expenses of organization may be saved. On the other hand, the wages paid and the class of service which the larger system gives to its new line may increase actual expenses, but such expenses are incurred for the purpose of improving transportation facilities and of increasing the gross traffic returns. Therefore the economy to the railroad company is not in the cost of handling the existing traffic, but in the reduced cost of handling the increased traffic resulting from the improved facilities given. Thus, with larger capital at

command, it is possible to make improvements and to develop a new low class heavy traffic, which is handled at a less unit cost. The saving by consolidation is, in short, due to the ability to develop business economically. Conversely, the business of any trunk line to-day could not be handled by a series of independent lines with varying standards, at the present rates which are profitable to the larger lines. With the improved efficiency and economy of transportation, rates have constantly declined and traffic has been continually developed. With increased density of traffic, the number of employes has been increased in proportion and has been paid a higher wage. The improved facilities and higher speed of trains have made the day's work for a trainman, not one hundred miles as a maximum, but as a minimum, so that to-day, with high speed trains, the trainman may earn in two hours time a wage higher than he earned in earlier days in five hours time. Even though the wage per mile run were the same to-day as in past years, the actual work which the trainman can physically do within reasonable hours is oftentimes 100 per cent. greater. The locomotive engineer of to-day may average easily one hundred and seventy-five miles per day, and at an increased rate of pay per mile over the one hundred-mile day of the past. But of even greater importance to the men themselves, to the railroad and to the general public service, is the highly developed set of rules governing the employment of men in train service. The seniority privilege, which provides that the oldest men in the service, if capable, are secure of regular advancement; the civil service rules governing their employment; the credit system which generally prevails to-day and which gives the employe full protection for good service done—in short, the desire of railroad corporations to keep their men so long as their service is satisfactory, and not to discharge them except for inefficiency—all of these rights and privileges have been recognized almost entirely by reason of the large consolidated railroad interests and



their consequent greater responsibility to the men and to the public.

The best proof of the relationship which now exists between the railroad corporations of this country and their employes is shown by the testimony of the representatives of the five principal labor organizations before the Industrial Commission on March 10, 1899. A few important passages will be quoted from the statement signed by the chiefs of the Brotherhoods of the Locomotive Engineers, Firemen, Conductors, Trainmen and Telegraphers. It seems to me of the highest importance that we should recognize their testimony as to the improved conditions which have arisen, if not by reason of, yet co-temporaneously with, this wonderful development and consolidation of railroad interests.

In their signed statement of March 10, 1899, they say:

"The employes . . . . are quite generally employed at rates of compensation and under terms of employment mutually agreed upon between the officers of the railway company and committees representing the men."

"The standard rate of pay for engineers in passenger service is three and a half cents per mile, freight service four cents per mile; firemen fifty-eight per cent of engineers' pay; conductors, freight service three cents per mile, brakemen, sixty-six and two-third per cent. conductors' pay; passenger conductors, one hundred to one hundred and twenty-five dollars per month; passenger brakemen, fifty to seventy dollars per month; yard foremen, twenty-seven cents per hour for day work, twenty-nine cents per hour for night work; yard switchmen, twenty-five cents per hour day work and twenty-seven cents per hour night work."

"As a rule, the rates of wages are quite stable."

"The plan of keeping record by a system of merit and demerit entries has of late quite generally taken the place of suspension as punishment."

"Unjust or unreasonable dismissals and suspensions are becoming fewer in number and fewer in proportion to the whole."

"Road, train and enginemen have little or no complaint as to hours of service; they are generally paid for all excess hours; train and enginemen, as a rule, are paid overtime on a very fair basis. The labor organizations do not interfere with the employe who is not a

member, nor with his right to work; they depend upon their standing, reputation and works to attract to them all worthy and well qualified employes."

"The whole business and laboring world are more interested in stability of rates than they are in the questions of whether or not those rates are a fraction too high."

"There is no doubt but that consolidation of railway lines under one management has effected economies in the management and in the traffic and accounting departments. It is our experience that the large masses of the employes are not unfavorably affected by such consolidations. On the contrary, we can cite instances where the employes of a small railway which paid poor wages and afforded very unsatisfactory conditions of employment, have been greatly benefited by that line being absorbed by some large system and the employes thereby brought under the operations of the higher rates of pay, and much more advantageous conditions of employment which obtained on the absorbing system."

Special testimony from the firemen :

"The railroad employes have an understanding with the employers that there shall be no more men employed than is necessary to move the traffic with dispatch, and during the busy times they take advantage of it and earn big wages, and when the dull season comes, of course they earn an average wage."

"I have been associated with the Brotherhood of Locomotive Firemen as its chief executive for fourteen years, and I have yet to find the first railroad officer with whom I could not do business and reach results that were acceptable to the organization which I represent."

"One of the best evidences of the relations between the Brotherhood of Locomotive Firemen and the railway managers or operators is the fact that we are supplying a great many of our members to-day to the railway companies who are in need of experienced men. They telegraph to our office and ask us to supply the demand."

P. M. Arthur, Grand Chief Engineer of the Brotherhood of Locomotive Engineers:

"In nearly every case, with few exceptions, during my administration of twenty-five years we succeeded in effecting an amicable adjustment, . . . so that to-day we have written agreements embodying the rate of pay, the rules for the government and protection of the men, with ninety per cent of the roads in the country. We have succeeded . . . in increasing the wages of locomotive engi-

neers from sixty dollars per month to three and a half cents per mile for passenger service and four cents per mile in freight."

"We believe in protecting the men in everything that is right and just. We have never dictated to a railroad whom they shall or shall not employ."

It is clear that such testimony as the above could not have been given if the railroads had continued to be operated as small separate lines. In railroads, more than in any class of labor in this country, we have seen the results of wise leadership on the part of the trade unions. Both capital and labor aim at monopoly; the best result is obtained only when intelligent counsel prevails. The railroads are moving on toward greater consolidations and with constantly increasing benefit to their million employes and to the public. More and more each year the managements of railroads acknowledge their public duties, more and more each year the operation of railroads is becoming a governmental function, so that, as I see it, the best condition will be reached when the relations between the government and the railroads are intelligently defined, with the management and operation left in the hands of private persons. The ideal condition is to so operate the railroads as to approach an ideal governmental operation and yet to retain the ownership in private capital. As a most vital and important element of this condition, the government should recognize the necessity of preventing unlicensed and unbridled competition between the carriers; of giving real publicity to the operations of transportation companies; of protecting the railroads so that they may maintain reasonable rates, as well as of protecting the public against unreasonably high rates. With these provisions the public and the stockholders will be protected and the large army of railroad employes, in their turn, will be protected in respect of their reasonable wage. As was stated in the testimony above by the representatives of the employes of the railroads of the country, "the whole laboring world is more interested in stability of rates than it is

in the question of whether or not those rates are a fraction too high."

The organizations of labor in railroad service have for the most part avoided the mistakes made by labor organizations generally, in that they have not demanded the employment of union labor, or the non-employment of non-union labor. This intelligent direction of their interests on their part has made the relations between the unions and many of the railroads most cordial. Arrogance and ignorance have been avoided on the part of both, and the results generally have been profitable to the railroads, the employes and the public. The centralization of capital in railroads tends, by a natural process, to put the direction or control in the hands of the ablest and best men the country produces. With railroads tending more each year to single control, what is the advantage to the employe and to the railroad? Each year the railroad operation becomes more vital to the interests of the whole people. Every business, social and political action demands that the arteries of travel shall be open. The processes of distribution have changed so that to-day the order placed in London will be shipped almost direct from the point of production. This is due to the highly organized methods of transportation which allow prompt and immediate distribution. So also is this evident in the changed conditions of our retail trade throughout the country. No longer does the retailer purchase his supply of goods from a middleman who has his full season's supply stored and on hand for distribution, but the retailer orders his goods in advance, the exact amount of the orders made is produced, and the goods are shipped almost direct to the retailer; so intimately have the accurate methods of transportation entered into industrial life and prevented the waste of unnecessary accumulation and overproduction.

Under these conditions, in what position is the expert employe of the railroad? What is his advantage? How far can he advance his wages and what controls his demand?

On the one hand, is the large railroad system which must continue its operations and to which the labor of its trained employes is necessary. On the other hand, there is a body of men who recognize the whole situation, but are controlled by making demands which they believe to be reasonable, the term reasonable meaning the demand which they believe the public would endorse. The history of railroad wages has shown that the public has been willing always to recognize the responsibilities of railroad men, and has given its sympathy to them in their reasonable demands. The employes, as a rule, have shown an intelligent understanding of the reasonable wage, and when they have not acted fairly and wisely they have not been supported by the public, have been refused their demands by the railroads and have learned that reason must prevail.

One of the most important needs of the times is to secure intelligent conservative leaders as attorneys, to counsel, advise and interpret a reasonable position for the armies of men in our various industries. How important it is to have such leaders is shown by the satisfactory relations between the railroads and their employes, as the testimony above indicates.

This important principle was illustrated a few years ago by the following instance: A large railway system, which had been in the hands of receivers for some years, had reduced the pay of its men 10 per cent. The wages paid were 10 per cent. less than the wages paid for similar service on lines similarly situated. In time the security holders were asked to stand a reduction of their holdings. The road was reorganized. It was placed on a sound financial basis, but with a fixed charge equal to the probable net earnings of the road. Soon after the reorganization the men asked for a restoration of their old rate of pay. The request of the men was refused, on the simple ground that the road could not afford to increase its expenses, that the wages paid under all the conditions existing were reasonable wages for

the work done. No promises were made for restoration in the future. It was a clear cut, well defined issue based on ability to pay and not on any question of standard wages so called.

A thorough and complete understanding was had, however, in respect to the rules and regulations to govern the employment of all the employes, so that the rights of the men, their conditions of employment and their interest in the prosperity of the railroad were thoroughly understood—this, in my judgment, being of much more importance than any question of increase or decrease in the rate of pay. After protracted and repeated interviews, the employes accepted the position of the company. From that day the company prospered in all its departments and gradually improved its standards and its service, to the great advantage of the public, its business interests and of the men. Finally, when its financial ability permitted it to do so, it restored the wages which had been in effect previously. This was a case of intelligent co-operation by organized labor. During that controversy it is interesting to note that the public press throughout the states where those lines were operated was almost unanimous in its support of the railroad in its position. It was the public sentiment that served as the jury for that case, and so it will always be, and the public, in my judgment, will always be a fair jury both to the railroad as well as to the employes, PROVIDED they know all of the facts in the case, and further provided that the operations of the road are known to be administered wisely and in the interests of the public.

In the future, the times may not warrant even the present rates of wages; and if they are to be reduced, it will be well if the public is fully informed through the publicity of accounts of the actual conditions of railroads, so that it may be the final arbiter of the reasonable wage for employes in a quasi-public service.

President Hadley says: "The railroads of the country at



the present time, taking good years and bad together, are probably not earning more than 3 per cent. on the actual investment." If, then, with the public fully advised, in competition with the markets of the world the rates on traffic must be so reduced as to curtail the fair return on what may be called actual values, the men on their part may not make unreasonable demands, nor will the public support them in so doing.

But meanwhile it seems to me evident that labor will continue to profit from the very size of the railroad systems involved. The conservatism of large railroad corporations means intelligent and careful consideration of all matters pertaining to the personnel of their organization.

In just such ways as have been so clearly demonstrated in railroad operation in the past, will the economies to labor work out in the other great industrial corporations of to-day. The modern trust, by reason of its economies in cost of production due to its large financial ability, will be able to pay the highest wage possible in its competition with the markets of the world; will tend to give steady and permanent employment, and more and more will approach in many ways a public service.

In conclusion, then, it is to me apparent that together with the increased tendency to consolidation of railroad systems, improvement in service, increased efficiency, larger demands for high class service, greater need for economy in transportation, there has been developed a higher standard of men in their employ; a wiser and more intelligent understanding on the part of employes as to their true relation to the service; an improvement in the conditions of employment; a higher wage for the same service done; shorter hours for a day's work, and, withal, generally a cordial understanding and appreciation of the rights of both employer and employe.



IV

THE FUTURE OF PROTECTION



THE INDUSTRIAL ASCENDENCY OF  
THE UNITED STATES ∴ ∴ ∴ ∴

BY HON. NELSON W. ALDRICH,  
UNITED STATES SENATOR FROM RHODE ISLAND

1850



## THE INDUSTRIAL ASCENDENCY OF THE UNITED STATES.

Hon. NELSON W. ALDRICH, United States Senator from Rhode Island.

The industrial ascendancy of the United States is established by a comparison of the magnitude and character of her industries with that of her great rivals, Great Britain and Germany. It is evidenced alike by the larger aggregate and per capita value of her industrial products and by the much greater collective and individual earnings of her people. It is emphasized by a rapidity of growth unparalleled in the world's history.

In the limited time at my disposal I shall not attempt to enter upon an inspection of the whole range of our important industries, but shall confine myself to an examination, which will necessarily be general in its character, of the growth and prospects of American manufactures. The great importance of an investigation of this nature must be apparent when we consider that our continued industrial supremacy depends upon the assured progress and prosperity of our manufactures.

The published reports of the eleventh census contain the story of results accomplished up to 1890. For the years which have elapsed since 1890 we fortunately have sufficient data to enable us to approximate closely the percentage of growth which has taken place during that period. I will have printed, in connection with this paper, a statement showing the relative increase in production for the years 1890 to 1899, inclusive, in the United States, Great Britain and Germany. The tables in regard to Great Britain and Germany are less complete than those for the United States, but they are sufficient for the purpose of this inquiry. I will not stop to read this statement, but will content myself with stating the percentages of increase in each case.

The increase in the production of coal in the United States in the decennial period was 52.1 per cent, in Great Britain 11.2 per cent, and in Germany 46.6 per cent. As coal furnishes the basis for most industries these figures, perhaps, constitute the best test of the relative growth of the productive forces of the three countries.

It is a gratifying fact that in 1899, for the first time, the production of coal in the United States exceeded that of Great Britain. This statement becomes more interesting from the fact that a generation ago Great Britain's output was four times that of the United States and more than one-half of the world's total. Germany's output at that time was 15 per cent more than that of the United States, while in 1898 the output of the United States was 57 per cent more than that of Germany. In 1868 the coal production of the United States exceeded that of France by seventeen millions of tons, while in 1899 the excess of the American over the French product was more than two hundred millions of tons.

The increase in the production of pig iron in the United States in this period was 48 per cent. When we consider that it is a generally accepted fact that the rate of increase in the production of iron and steel in a country is a fair test of its advance in civilization in the arts, this large increase is most satisfactory. The increase in the production of pig iron in Great Britain was 11.2 per cent, while the increase in Germany was 72.3 per cent. It will be seen that the percentage of increase shown in Germany was greater than that in the United States, owing to the relatively small production in Germany in 1890. The actual increase in tonnage, however, was greater in the United States, the figures being an increase of 3,400,000 metric tons in Germany and 4,400,000 gross tons in the United States.

The increase in the number of cotton spindles was 25.6 per cent in the United States and 4.9 in Great Britain. The percentage of increase in this case is smaller than any of the

others under consideration, doubtless owing to the unusual depression in cotton manufacturing which continued during a considerable portion of the last ten years. The consumption of cotton, however, increased 56.2 per cent in the United States, while the increase in Great Britain was 9 per cent. These figures show very plainly the marked increase which has recently taken place in the productive capacity of American cotton machinery. The relative figures for Germany are not available, but it is safe to say that the increase of cotton manufactures in that country was much less relatively than in the United States.

Our imports of raw silk increased 52.9 per cent during the period named, while those of Great Britain increased 15.8 per cent and those of Germany 35.3 per cent.

The increase in the general business of the United States is shown by the increase in the transactions of the New York clearing house of 52.3 per cent, of deposits in national banks of 53.6, and of deposits in savings banks of 46.2 per cent.

We can assume that the number of persons employed in our manufacturing establishments increased proportionately with the increase of production, as the average number of employes in the decennial period ending in 1890 increased 65.77 per cent, while the increase in the value of the product was 69.31 per cent. The increase in the number of persons employed in specified industries in Germany, as shown by the German industrial census of 1895, was for thirteen years, from 1882 to 1895, 39.9 per cent, while the number of persons engaged in all textile industries in Great Britain decreased 2.2 per cent from 1890 to 1897.

Another indication of relative industrial growth is furnished by the fact that the domestic exports of the United States increased 42.4 per cent during the last ten years, while those of England increased 11.8 per cent and those of Germany 12.9 per cent. During the fourteen years ending 1899 the value of the domestic exports of Great Britain

increased 99 millions of dollars, those of Germany 212 millions, those of the United States 478 millions of dollars.

The figures I have given, taken together, show a probable increase in the manufactured product of the United States from 1890 to 1899 of from 40 to 50 per cent. Taking into account the decline in prices which has taken place, it is safe to assume that the total value of the manufactured products of the United States for the census year 1900 will be more than twelve thousand million dollars. This assumes, of course, that aggregate values will be ascertained by the same methods that were employed in taking the eleventh census.

Mr. Mulhall estimates the total value of the manufactured products of Great Britain in 1896 at 4,239 million dollars, and of Germany at 3,339 millions. If these estimates are approximately correct, as I presume they are, the annual value of the manufactured products of the United States is 2,000 millions greater than that of Great Britain and Germany combined.

The facts I have stated but partially disclose the great advances which have taken place in German manufactures as compared with those of Great Britain in recent years. One indication of the respective growth of the industries of the two countries is found in the fact that Great Britain furnished 39 per cent of our imports in 1860 and 17 per cent in 1899, while Germany furnished 5 per cent in 1860 and 12 per cent in 1899. The influence of the aggressive warfare which the managers of German industries are making for the control of markets, is felt throughout the world. American manufacturers, intelligent and energetic as they are, have much to learn from the experience and success of their German competitors.

In considering the recent progress of American production we should not fail to take into account the influences that retarded our normal industrial growth in the years following 1892. The widespread fears aroused by persistent agitation of monetary questions unsettled confidence at home and

abroad in the stability in value of our currency. Tariff agitation, culminating in the reactionary legislation of 1894, also had a deleterious effect. These influences arrested development to a considerable extent. For instance, the production of pig iron for the years 1894 to 1896 averaged annually but 8,200,000 tons, while for the three succeeding years the average was 11,700,000 tons. The average annual consumption of cotton in 1895 and 1896 was 2,500,000 pounds, and in 1898 and 1899, 3,250,000 pounds.

The same influences were felt in both imports and exports of manufactured goods. The value of the average annual exports of manufactured articles for the three years ending March 1, 1896, under the tariff act of 1894, was \$193,500,000, while for the three years ending March 1, 1900, under the act of 1897, the annual average was \$332,700,000. The annual average imports of manufactured articles ready for consumption, for the first period, under the act of 1894, was \$155,000,000, and for the two years 1898 and 1899, under the act of 1897, was \$103,000,000.

It is evident from an analysis of the comparative figures I have given, that notwithstanding the drawbacks I have mentioned, the progress of American manufactures has been much more satisfactory than that made by either of our principal competitors. A student of our industrial history is constantly impressed with the remarkable changes which are taking place in the character as well as the extent of our manufactured products. A generation ago American manufacturers were satisfied if they held a considerable portion of the domestic market for the lower grades of manufactured products, including the coarser cloths, both cotton and wool. No successful attempts were made to produce the finer articles of manufacture in any of the great lines of industry. To-day we hold the largest portion of the market for the finest goods of every description. A large part of the textile machinery of the United States is to-day employed in the production of goods which could not have been profitably

made in the United States thirty years ago. The revolution has been scarcely less radical in all the great industries.

In order to show how completely our domestic manufacturers have control of the American markets, I will say that the percentage which the imports of cotton manufactures bore to the total domestic consumption of cotton goods in 1899 was 3.4 per cent. The percentage of manufactures of wool was 5 per cent, of clothing, 1.4 per cent, and of the manufactures of iron and steel, 6 per cent. To illustrate the changes which have taken place, I will say that in 1860 we imported 25 per cent of our consumption of cotton manufactures, and 32 per cent of our consumption of woolens. Great Britain imports annually in value of manufactured products about \$16.00 per capita, while the United States imports but \$3.50 per capita.

American manufacturers have not only retained their hold on the home market, but they have successfully invaded foreign markets, and secured a constantly increasing proportion of international trade, as is clearly shown by the remarkable growth of our manufactured exports.

It is the character of international trade and not its extent that determines the measure of benefit to a country.

Under modern conditions, manufactures are not only necessary for successful industrial organization, but they also furnish the most satisfactory basis for profitable foreign trade. This latter fact is established by the experience of Great Britain for half a century. The remarkably successful efforts of Germany to extend her foreign trade through the protection and consequent prosperity of her manufactures, furnish another striking illustration of the accuracy of the statement.

The foreign trade most desirable for the United States to promote is that which provides for the exchange of her manufactured or partially manufactured products, those requiring the greatest amount of skill and labor in production, for the products of other countries which, from climatic



or other causes, cannot be produced here, or which we cannot produce with an equal expenditure of labor or skill. Foreign trade of this nature builds up domestic manufactures.

The manifest interest of the United States lies in enlarged exportation of manufactured rather than agricultural products. From a national standpoint it is clearly unprofitable for us to send abroad to other industrial countries our crude materials and food in exchange for manufactured articles in the production of which we have equal natural advantages. If our agricultural products could be first transformed into finished manufactured articles and then exported, great saving in the cost of transportation and other expenses would result, but the indirect consequences, from an industrial standpoint, would be even more important. Manufactures, once firmly established and covering the entire field of industrial creation, become the most effective agency for securing permanent improvement in the character of national productive forces.

It is quite natural, however, that our people, with a productive capacity in excess of their requirements, should seek an outlet for the disposition of their surplus, but in our commendable search for new markets for American products we should not forget, however, that it is still necessary for the continued prosperity of American manufacturers that they should retain the American markets, and that there should be no diminution in the purchasing ability of the American consumers from the present high level. This retention of domestic markets is rendered all the more imperative from the fact that under existing conditions many of our manufactures are only profitable when conducted on a large scale. We cannot overlook the fact that the strenuous contest for markets, enforcing a demand for cheaper methods and greater economies in production, is bringing about revolutionary changes in manufacture. A margin of profits is secured only by the savings in cost of administration and distribution, and by the use of better methods and stimulated

improvements in machinery, rendered possible through largely increased production.

I believe that in most cases where American manufacturers have wrested the control of the American market from foreign competitors the result has been lower prices for the product throughout the world. In a great number of instances we have, by the improved methods to which I have alluded, by a much greater use of machinery, and by the superior skill and enterprise of our mechanics, reduced the cost of production in the United States to a point which has enabled us to sell our goods in neutral markets. The number of articles that we can successfully produce in competition with our industrial rivals is constantly increasing.

But the advantages to which I have alluded do not exist in all cases, and the high level of earnings of all persons engaged in useful employments in the United States still necessitates a relatively higher cost of production here in many articles, and in order to enable the American producer in these articles to meet his foreign competitor in our own markets, it is necessary to equalize conditions by levying protective duties. In cases, however, in which the home market is extensive enough to awaken the inventive spirit and enlist the highest type of American skill and enterprise in production, we are constantly encroaching upon the markets of our industrial rivals and enforcing our demand for a fair share of foreign trade.

Having in view the standards for profitable American commerce, which I have endeavored to establish, it will be interesting to examine the changes which have taken place in the character of our imports and exports, as the nature of these indicate the growth in our productive capacity.

We will first take imports. I have assumed that the public interests would be promoted by increasing the importations of crude materials used in our industries, and by diminishing the importations of manufactured articles which compete with our own products. In the period from 1846

to 1861, when the revenue tariffs of 1846 and 1857 were in force, the proportion which articles in a crude condition used in American industry, bore to the entire importations, was 14 per cent. In the period from 1876 to 1890, this proportion had increased to 24 per cent. During the years 1898 and 1899, under the tariff act of 1897, the proportion was 31 per cent. In the first period I have mentioned, from 1846 to 1861, the percentage which the imports of articles manufactured ready for consumption, bore to the total imports, was 35 per cent. In the second period it was 20 per cent and in the years 1898 and 1899 it was 15.5 per cent. From 1846 to 1860 the increase in dutiable imports was 175 million dollars, from 1876 to 1889 the increase was 168 million dollars, while during an equal period in years from 1885 to 1899 there was an actual decrease in imports of one million dollars.

Coincident with this remarkable decrease in manufactured imports, we have even a more remarkable change in the character, and increase in the value of our exports. The value of our total exports rose from 316 millions in 1860 to 845 millions in 1890, and to 1,227 millions in 1899. The value of the exports of domestic manufactures in 1860 was 40 millions, or \$1.25 per capita; in 1890 151 millions, or \$2.41 per capita; and in 1899, 339 millions, or \$4.46 per capita. If we should take separate items we should find the increased rate more marked. For instance, the value of the exports of miscellaneous manufactures of iron and steel increased from 5 millions in 1860 to 25 millions in 1890 and to 93½ millions in 1899. In 1860 our exports of domestic manufactures formed 12.76 per cent of our total exports; in 1890 the proportion had risen to 17.27 per cent, and in 1899 to 28.21 per cent.

The statistics of total foreign commerce are not as favorable to the United States.

We find that the growth of our foreign commerce, between the years 1885 and 1899, was 45.9 per cent, while our

exports increased in the same period 65.1 per cent. The total foreign commerce of Germany increased in the years 1885 to 1898, 52.7 per cent, and her exports increased 31 per cent. The total foreign commerce of Great Britain increased, in the last period named, 22.2 per cent, while her exports increased 9.4 per cent. It will be observed that the increase in total foreign commerce was greater in Germany than in either Great Britain or the United States, but that the United States led the others in the growth of her exports.

While the growth of the foreign commerce of the United States is very creditable to her enterprise, it does not furnish the best indication of her real position as a commercial nation.

There is a class of people in this country who are inclined to follow the theories of British economists and exaggerate the importance of international trade. These theories had their origin in geographic rather than economic conditions.

The comparatively small area of the leading commercial nations of Europe gives a character to their foreign commerce which finds no analogy in a country of continental proportions like the United States. In one case the transportation of products a short distance across a river, a mountain range, or some less tangible boundary, constitutes foreign commerce, while in our country the exchange of the manufactured products of New England for the fruits of California or the cotton of Texas is classed as domestic trade. The value of the merchandise which crosses the English Channel, the North Sea, the Adriatic or the Mediterranean, swells the vast sum of European international trade, while the much greater value of American products transported across our Great Lakes or the gulfs and bays that stud our coast is not taken into consideration in estimating the foreign commerce of the United States.

A large portion of the internal commerce of the United States is analagous in every respect to the international commerce of Europe, and no comparison which seeks to determine the relative commercial importance of the nations

of the world can be fairly made which does not take this fact into consideration.

Mr. Mulhall estimates the value of the internal trade of the United States in 1894 at 14,466 million dollars. I believe that this estimate is a very conservative one. He estimates the internal trade of Great Britain for the same year as 5,774 millions, and that of Germany at 5,590 millions. If to these respective sums we should add the foreign commerce of each of these countries for the last year for which the statistics are available, we should have this result:

The total domestic and international trade of the United States would amount to 16,367 million dollars, that of Great Britain would amount to 8,900 million dollars, and that of Germany to 7,693 millions. It will be seen that the total trade of the United States is approximately equal to that of Great Britain and Germany combined. When we consider that the population of Germany in 1895 was 52 millions, and that of Great Britain in the same year was 39 millions, or a total for both countries of 91 millions, while the population of the United States for the same year was less than 70 millions, we can better form some idea of the pre-eminence of the United States as a commercial nation.

The array of statistics which I have presented disproves the teachings of that class of political economists who confidently assert that there can be no normal growth of either domestic production or foreign trade in a country which has adopted a protective policy. Those who make the assertion are forgetful of facts and do not comprehend the nature of the policy. It is not a policy of exclusion, but of discrimination. It does not seek to arrest foreign commerce, but to direct its flow into profitable channels. It is not a policy of restriction, but of expansion—expansion through a better diversification of national industries and a more thorough organization and development of national forces.

It should be the primary purpose of our protectionists to aid through intelligent legislation, in the great work of

American industrial evolution, and to encourage such agencies as will contribute to this result. Intelligent advocates of the protective policy have no programme to enforce, except such as conforms to the demands of our national interests from time to time.

The creditable record of the past adds to our sense of responsibility for the future. We shall, however, enter upon the new century better prepared than ever before, for industrial conquest, and with many conditions favorable to our continued success.

We have reason to believe that recent legislation has settled the policy of the United States in regard to its currency and standard of value for the next generation. This will give confidence to enterprise and do much indirectly to aid in industrial development. The tariff policy of the country may also be looked upon as settled for many years to come, and this fact should also give a feeling of security alike to employers and employed. I do not mean that changed conditions will not necessitate an occasional revision of tariff rates; but we may confidently expect that these adjustments will be made with a view to protect and conserve our national interests.

To secure any considerable increase in our foreign trade in domestic products in the face of the fierce competition we are certain to encounter will, however, under any possible circumstances, make serious demands upon the resources of American producers.

Every community interested in manufactures must furnish to its people better means for thorough technical education, having special reference to the demands of local industries. Our manufacturers and merchants must study more carefully the requirements of foreign markets. They must profit by the valuable experience of their rivals. They must acquire a better knowledge of the habits, demands and language of their customers. In styles and in preparation for transportation they must be governed by the wishes, or prejudices,



if you please, of their customers, and not by their own pre-conceived notions. Our capitalists and merchants must establish banking and commercial agencies wherever an extension of our trade is possible.

Equally exigent demands rest upon the national government in this connection, which can be met, first, by affording our people better facilities for transportation through the encouragement of frequent and direct steam service with the countries that are our natural customers. We should not hesitate to adopt, in this respect, the agencies that have been found so effective in the experience of other commercial nations; second, by the adoption of commercial treaties or reciprocity arrangements looking to the extension of our trade with our South and Central American neighbors and the countries of the Orient; and third, by providing a more efficient consular service.

The great work of extending our reciprocal trade in the manner I have indicated, should be promptly inaugurated. Our commercial rivals have, either through actual absorption of territory or by increasing their respective spheres of influence, secured advantages of more or less importance in most of the neutral markets of the world, outside of the area I have named.

With a full understanding of the nature of the task we have in hand we shall not fail.

We enter upon the great industrial contests of the future with the prestige of unparalleled achievement. We have unequaled natural resources. Our productive forces are fully developed. Our industries are thoroughly organized. We have unrivaled wealth of soil and inexhaustible mineral deposits. Better than all, we have a vast army of intelligent, alert, and self-reliant producers, who are receiving a constantly increasing proportion of the benefits derived from our superior industrial organization.

With such resources and such a people the industrial ascendancy of the United States is secure.

*United States.*

	1899.	Percentage of Increase.
Tons pig iron production . . . . .	9,202,703	48.0
Tons coal production . . . . .	157,770,963	52.1
Number cotton spindles . . . . .	14,405,000	25.6
Consumption cotton, bales . . . . .	2,325,000	56.2
Tons freight carried one mile . . . . .	79,192,985,125	44.6
Imports of raw silk, pounds . . . . .	7,347,999	52.9
Transactions New York Clearing House . . . . .	\$37,660,686,572	52.3
Deposits in national banks . . . . .	\$1,594,200,000	53.6
Deposits in savings banks . . . . .	\$1,524,844,506	46.2
Domestic exports, value . . . . .	\$845,293,828	42.4
	1899.	
	13,620,703	
	240,000,000	
	18,100,000	
	3,632,000	
	114,566,173,191	
	11,236,846	
	\$57,368,230,771	
	\$2,450,700,000	
	\$2,230,366,954	
	\$1,203,931,222	

*Great Britain.*

Number cotton spindles . . . . .	43,750,000	4.9
Consumption cotton, bales . . . . .	3,227,000	9.0
Tons pig iron production . . . . .	7,904,214	17.7
Tons coal production . . . . .	203,408,003	11.2
Number persons engaged in all textile industries . . . . .	1,084,631	2.2 decrease.
Domestic exports, value . . . . .	\$1,281,377,000 (1898)	11.5 decrease.
Imports raw silk, pounds . . . . .	1,961,281 (1898)	15.8
	45,400,000	
	(1898) 3,519,000	
	(1898) 9,305,319	
	(1898) 226,301,058	
	1,051,564 (1897)	

*Germany.*

Number persons employed in specified industries . . . . .		39.9 1882 to 1895
Domestic exports, value . . . . .	\$791,716,000	12.9 1890 to 1898
Tons pig iron production . . . . .	4,658,450	72.3 1890 to 1898
Tons coal production . . . . .	93,398,500	46.6 1890 to 1898
Imports raw silk, kilograms . . . . .	2,309,509	35.3 1890 to 1898
	\$94,062,000	
	8,029,305	
	144,283,196	
	3,125,600	

THE TARIFF POLICY OF OUR NEW  
POSSESSIONS ∴ ∴ ∴ ∴ ∴ ∴

BY HON. ROBERT P. PORTER

SPECIAL COMMISSIONER FOR THE U. S. TO CUBA AND PORTO RICO



## THE TARIFF POLICY OF OUR NEW POSSESSIONS.

Honorable ROBERT P. PORTER, Special Commissioner for the  
United States to Cuba and Porto Rico.

The tariff policy of our new possessions must first of all be framed to fit the country and the condition of the people for which it is intended. Unless this fundamental idea is rigidly followed there will be endless complications and trouble. The economic conditions of some countries require one kind of tariff and of other countries another kind of tariff, while some countries like England, for example, are so situated that free admission of all but a few products best promotes the general welfare of the inhabitants and the prosperity of the nation. France, Germany, Russia and the United States each has an elaborate tariff covering hundreds of printed pages, and each devised with a view of protecting certain home industries. To construct a tariff of this sort and clap it around the island of Porto Rico or of Cuba or of the Philippines, would be very much like putting a steam-hammer in motion to crack a hickory nut. We had an illustration of this sort in the case of the Island of Guam, which I suppose may rightly come under the term "our new possessions," however out of place it may be when applied to Cuba. A tariff was wanted for Guam. There was no time to send for the United States tariff, and so Governor Leary, like a true American rose to the occasion and wrote one himself, which for charm of expression and simple directness far excels those more ponderous documents with which Congress is familiar. I was afterwards called upon by the navy department to revise the tariff of Guam and destroy its primitive picturesqueness. It is perhaps in better form now, but the Leary tariff answered the purpose so

long as the military or naval authorities had power of administration without appeal.

The territories which we have acquired by conquest or purchase, and the island which we have pledged ourselves to protect against foreign aggression—though distinctly repudiating sovereignty therein—cannot be exploited for the advantage of the United States. A policy of this sort which disregarded the rights of the inhabitants, would be following the bad example of Spain. It would be putting on the cast-off wearing apparel of England, for the idea of working the colonies solely for the benefit of the mother country has seen its best days with the British Government. The war of American independence did much to modify and dispel the notion that "colonies" or "possessions" could be made tributary to the parent country. The Spanish idea in its government, not only of Cuba, but of Porto Rico and the Philippines, was purely and absolutely the idea of possession, and nothing points so unmistakably to this as the manner in which the tariffs were framed and the tariff policy adapted towards those possessions. Spain was not content with a fiscal policy giving absolute freedom of trade between the mother country and the colonies, and the Spanish tariff against all foreign nations. The Spanish idea was to levy toll both coming and going. To this end, tariffs for these unhappy islands were so constructed that the products of Spain could be imported at a very low rate of duty, and the products of other countries at a rate sometimes double and even treble. A more iniquitous fiscal arrangement was never conceived. True, the products of other countries were food-stuffs and necessities for the farmer and the laborer, while the products of Spain were silks, fine linens, expensive wines and luxuries. So deep-seated was the greed of the mother country that from 75 to 80 per cent of the revenues from customs tariff were collected upon articles of food and of first necessity, while the well-to-do and rich—mostly resident Spanish citizens—enjoyed the lowest rates



of duty upon the merchandise they imported. It was this sort of tariff policy the United States found in the several territories for which we have been called upon to evolve not only a fiscal but a complete governmental policy.

The settlement of our tariff policy for Porto Rico has raised all the questions incidental to the government of these territories, excepting, of course, those involving our future relations with Cuba. It is not my intention to discuss here whether a treaty is a part of the supreme law of the land, or whether the Constitution extends itself, *ex proprio vigore*, to all territory acquired by the United States, at the moment of its acquisition. This is a fundamental question which has been thoroughly thrashed out in the recent debates of Congress, and until the Supreme Court of the United States passes upon it, the proposition that the "Constitution follows the flag" remains controverted. To one dealing only with the practical side of the question it would seem strange that we should have no other alternative but to put around these islands without any preparatory work, the Constitution and laws of the United States. There is no doubt in my mind that under the Treaty of Paris, Congress was invested with full power to legislate with respect to these islands and their inhabitants in such manner as it may deem wise, restrained only by the general spirit of our institutions. The framers of the Constitution seem to have provided for this contingency when they invested Congress with power to "dispose of and make all needful rules and regulations respecting the territory and other property belonging to the United States." "Under these two powers," says Senator Foraker in a very clear exposition of this question in the current *North American Review*, "Congress is at liberty to make any provisions it may see fit to make with respect to Porto Rico and the Philippine Islands that have relation to the civil and political status of their inhabitants. It may make them citizens or withhold citizenship; it may impose equal or unequal taxation, as

compared with the rest of the United States; and it may, as there is occasion to do in this instance with respect to coffee, impose a duty upon the importation of coffee into Porto Rico for the protection of the coffee industry there, while, under the general tariff laws of the United States, at all ports of the United States, coffee is admitted free; and it may, as many of us believe, and as the bill provides—impose a duty upon products imported from the United States into Porto Rico or from Porto Rico into the United States.” If this view of the question should prove correct, and the Supreme Court so decides, the tariff policy of our new possessions must be settled in accordance with the opening proposition of this paper. If, on the other hand, the Supreme Court should decide that we have no power under the Constitution to levy duties upon products going from this country to Porto Rico or the Philippines, or to collect duty on merchandise coming from those islands to the United States, there is nothing left for me to discuss. The tariff policy of our new possessions in that case will become the tariff law of the United States, and that has been committed to other hands.

The question of our present and future fiscal relation with Cuba remains undebated, but as the trade of Cuba exceeds that of Porto Rico and the Philippines combined, and the difference of opinions as to its future is as sharply defined, the Cuban question will not lack interest when once before Congress. While the great constitutional lawyers in Congress are clinching their arguments with quotations from the framers of the Constitution, rounding their sentences with rhetoric resonant with eloquence, and keeping the presses of the government printing office busy night and day with their speeches, the Army of the United States is attending to the humdrum of every day legislation, not only in our own new possessions but in the Island of Cuba. The military are hour by hour, and day by day aided by such civilian experts as can be extemporized for this purpose,

keeping law and order, administering police irrespective of race and class, inaugurating a new judiciary, extending municipal institutions, building school houses and establishing schools, reconstructing society on a new basis, framing and promulgating tariffs, collecting and expending revenue, and performing other and equally important functions, not in the interests of the United States, but in the interests of the inhabitants of these islands. All this work has been done with precisely the same scrupulous care and surrounded by the same checks in all matters involving property interests or the receiving and disbursing of money, as our government demands in the administration of its own affairs. In each case the records are complete. If Porto Rico becomes a territory or state of the Union, her people will have a full accounting of all transactions from the day Spain relinquished responsibility of government and the United States assumed it. If Cuba becomes self-governing she will realize that for the first time in her history, she enjoyed during American occupancy, *i. e.*, from January 1, 1899, absolute industrial independence. The tariff policy which we adopted or put in force for Cuba enabled the inhabitants for the first time to purchase in the cheapest and most advantageous markets of the world. She is as free to buy of Spain as of the United States. The commodities imported from the United States pay absolutely the same rate of tariff duty as the commodities imported into Cuba from Spain and from all other countries. The tariff policy adopted for the Philippines, owing to the condition of affairs, is only temporary, but it does not in any way violate the principles underlying our established tariff policy for the territory which the military government of the United States has been called upon to administer.

The tariff policy, therefore, of our new possessions and of Cuba—the government of which we have been called upon to administer—must be more or less modified by the future political relations of these islands to the United States.

If Cuba, Porto Rico or the Philippines were to-morrow declared part and parcel of the United States, subject to our Constitution and laws, what would be the economic result? Porto Rico, around whose unhappy head has recently played all the thunder and lightning of a sharp party debate, would be least affected. From an economic point of view, the difference of absolute free trade between the United States and Porto Rico and a small rate of duty is hardly worth discussing. From a revenue standpoint, a small rate of duty for a limited period has decided advantages. In 1898 I was asked by President McKinley to frame tariffs for Porto Rico and Cuba. While in form, and as far as possible in administrative features, these tariffs were similar, the schedules of rates naturally differed. The Cuban tariff was arranged on a basis of not over 25 per cent *ad valorem*, and the tariff for Porto Rico on a basis of 15 per cent *ad valorem*. The returns for the calendar year 1899 show that the average rate of duty on all imported merchandise (dutiable and free) into Cuba was a trifle less than 20 per cent. The abnormal condition of affairs in Porto Rico—including the disastrous hurricane—makes estimates valueless. There has, however, been little or no complaint against the tariff which we framed for merchandise imported into Porto Rico. The real trouble came from the fact that Congress alone could deal with the rates of duties on the products from Porto Rico imported into the United States.

If, before adjourning in 1899, Congress had passed a simple act reducing duties or admitting free into the United States a few of the chief products of Porto Rico, the present tariff would, with a few modifications, have operated more satisfactorily than the Dingley law, no matter how much it may be reduced. The justice of this has been recognized both by President McKinley and Congress by the return of the \$2,000,000 or more of customs duties collected on Porto Rican imports into the United States during the period of our possession. Much has been said of the liberality of

Spanish policy towards Porto Rico. I do not think the fiscal policy of Spain towards this colony differed greatly from that which she adopted towards her other possessions. The Spanish tariff policy seems to have been 7 per cent for manufactures of cotton, 12 per cent for manufactures of silk, 10 per cent for manufactures of wood, 9 per cent for machinery, 2 per cent for special imports, but 20 per cent upon alimentary substances. There would seem to be two reasons for this, the first being that in a climate like Porto Rico the inhabitants can do without almost anything but food; the second that, as most of the food products were imported into Porto Rico from the United States, Spain herself took little interest in the rates of duty. Indeed, of the total amount of duties paid as above, nearly \$950,000 were paid by the United States, largely on food products. In making up the Porto Rico tariff, Spain arranged the schedules so adroitly in favor of her own interests that between the goods placed at a high rate of duty coming from countries other than Spain, and the commodities placed at a low rate of duty, or on the free list, when imported into Porto Rico from Spain, she almost escaped the payment of duty. Spain, in fact, furnished over 40 per cent in value of the imports into Porto Rico, upon which were paid less than 4 per cent of the customs collected; the United States furnished 21 per cent of the value of the imports, upon which were paid 38 per cent of the customs collected. The aim was at once to put an end to this condition of affairs, and to this end duties on articles of food and of general consumption were reduced as much as possible or put upon the free list. It must be apparent to any intelligent person who has followed the Porto Rico debate that there is no economic or fiscal issue. The President's first proposition of absolute reciprocity of trade would have been a simple solution of the question if the machinery for internal and local revenue could have been put in motion simultaneously to the abolition of tariff duties. The

plan to give the President a free hand in the matter and authorizing him to reduce the duty on some Porto Rico products imported into the United States and make others free, and to continue in force in the island a tariff for revenue suitable to the wants of the island, would have perhaps been an even more practical way out of the dilemma. The opposition, however, wanted to obscure the real issue and strengthen the anti-expansion cause, by the cry that the President's proposal for free trade with poor Porto Rico had been ruthlessly turned down in the interests of sugar and tobacco trusts. Porto Rico needs revenue, and the simplest and least onerous method of raising it is by a tariff for revenue. The Dingley law with 85 per cent off or 75 per cent off will probably work satisfactorily as a lazy man's tariff. It will harm no industry and can foster no trust. A better way would have been to frame a simple special tariff arrangement between Porto Rico and the United States, in which our food products should be imported free of duty into Porto Rico, and the sugar, tobacco, coffee, fruit, etc., of Porto Rico should be admitted free of duty into the United States. If Congress has the power to deal absolutely with the question—and I believe it has—it might just as well deal with it in the first place effectually. The limited population and productive capacity of the island makes it a small factor in the industrial trade and affairs of the United States. For this reason the principal consideration should be—and, so far as the present administration is concerned, has been—the general welfare of the island itself.

In the Philippines other and more far reaching questions confront us, and it is this issue we have in reality been debating while seemingly discussing schedules of the Porto Rico tariff. In short, our power in Porto Rico is the measure of our power in the Philippines. However indifferently we may view the decision as to the rates of duty to be established between Porto Rico and the United States, the question of our trade relations with the Philippines is far more compli-



cated. It would seem to be of the highest importance both to American labor and industry, and to our future trade relations with the Far East, that Congress shall at all times have power to deal with it as it sees fit. However much the spirit of our institutions may vivify the population of these islands—even to ultimately preparing them for citizenship—it must be admitted that the letter of the Constitution, if abruptly applied, would destroy. For this reason the Republican party has wisely made the fight for a free hand in laying out our commercial policy in the Philippines. Exactly what that policy will be it is impossible to say at this moment, but it will probably be shaped along the same lines as that of Cuba. By this I do not mean that the tariffs will be similar, but the general principles upon which they are framed will be followed. The Cuban tariff was framed especially with a view to the present needs of Cuba. In the same way the Philippine tariff policy should be one that will give sufficient revenue and at the same time not interfere with the "open door" policy which American diplomacy has established in the East. The Dingley tariff law around the Philippines might prove fatal to our growing China and Japan trade and bring about innumerable trade complications. Without entering upon the detail of our tariff policy for the Philippines it must be, first of all, a flexible policy, one that can be changed from time to time by Congress as trade conditions require it. This is apparent at the very threshold of the question. Geographical, climatic and ethnological reasons demand a separate treatment of this territory for some time to come. The American people, practical as they are, realize this, and our fiscal and governmental policy in this part of the world will be shaped in accordance with these general principles,—the spirit of our Constitution, without the letter.

Our tariff policy up to date in Cuba has been simple and has worked satisfactorily. The first tariff for Cuba was framed in much the same way as we frame our own tariff.

As special commissioner to Cuba and Porto Rico the work was assigned to me by the President soon after the signing of the protocol of peace, August, 1898. I visited Cuba, held public hearings in the principal cities and carefully noted all the testimony, petitions, statements and letters. From these data it was possible to gauge pretty accurately the wants of the people of the island. The tariff is practically a revenue measure, though in all cases where native industry asked for protection it was accorded. In no sense was the tariff framed with a view to discrimination in favor of the United States against Cuba or against any other country. There are no maximum and minimum columns in the Cuban tariff. This tariff exceeded our expectations from a revenue point of view, the receipts reaching in the aggregate, for the year 1899, fifteen million dollars. Recently, in conjunction with Collector Bliss, of Havana, and General Sanger, director of the Cuban census, I have revised the tariff which went into force January 1, 1899. The new tariff will be proclaimed by the President, June 15, 1900, and, following out the general lines of the present tariff, it will be more harmonious and easier of administration. The future tariff policy will depend so entirely upon the future status of the island that the discussion can hardly be separated. The Island of Cuba is not only the most important, from a fiscal point of view, of all these territories, but it has required the most careful and skillful treatment. The relations of the United States Government to Cuba are far more complicated than our relations with Porto Rico, though the issues are totally different. Assuming that an entirely independent and separate existence is the ultimate destiny of that island, how can it best be brought about? If it is brought about, how can Cuba maintain it without a navy? Having, at a great sacrifice of blood and treasure, evicted Spain, given Cuba her industrial independence, established a fiscal system administered by Cubans for the benefit of Cuba, there is no future Cuba without the United States as an important factor in the equa-

tion. Cuba is perfectly capable of self-government. Those who have had experience in the reconstruction work know this perfectly well. The tariff policy and the general policy toward Cuba has been a policy looking toward self-government.

There is no disposition on the part of the people of the United States to grab or appropriate Cuba in the manner recently suggested by President Cleveland's Secretary of State. In the due course of time Cuba will become a self-governing territory, but the people of that island, in my opinion, will never relinquish their alliance with the United States, however much we may want to be relieved of the burden. Political, industrial, commercial and fiscal reasons too powerful for mere sentiment to permanently overcome, create a unity of interest and purpose between Cuba and the United States that will in time bring about naturally a union which force could never accomplish. The closer this union the better for the commercial interests of both countries. The Cuban, however, has a good deal of sentiment in his make-up, and if the existing friendship and self-interest should end in annexation, it must come about by the free will of the Cuban himself. Dealing as I am with neither the political, constitutional, nor sentimental sides of these questions, but solely with the economical, it is safe to say that the trade relations of Cuba and the United States dovetail together in perfect harmony. The United States requires all the products of Cuba, and is the nearest and best market for them. Cuba can practically supply her chief wants in our markets. In this, however, the scales tip in favor of Cuba, for the first year of open markets for Cuba has not been satisfactory to United States trade, less than half the imports into Cuba during 1899 coming from the United States. This indicates that the Cuban trade must be looked after, and that it will not run in our channel without some effort on our part to supply the class of goods wanted. Free access to our markets for Cuban tobacco and sugar would be a tremendous

boon to Cuba, and would soon make the island rich and prosperous. The effect, however, on American industry would be serious and far-reaching. The American beet-sugar producer and the Louisiana sugar planters would naturally oppose it, while many would contend that free admission of Cuban cigars would cause a migration of the cigar industry from this country to Cuba. The lack of uniformity of our present sugar tariff discriminates against Cuba. She can take care of herself provided she can get into the United States free of duty, as she did under the McKinley Tariff Law, but entering here with a duty of \$1.685 per hundred pounds, against free sugar from the Sandwich Islands and from Porto Rico, and a reduced duty by reason of reciprocity treaties with the British West Indian Islands, mean the absolute ruin of the Island of Cuba. These are some of the stern facts which face Cuba, and their solution can alone be brought about by a satisfactory tariff arrangement with the United States. The Cuban should distinctly understand that there are two sides to any convention that may be brought about between the United States and Cuba. Absolute free trade involves sacrifices on our part of important sugar interests and a reconstruction of our sugar tariff; it may likewise involve great changes in our tobacco and cigar industries. It is a problem with infinite detail to work out and many knotty questions to decide and requires bold statesmanship on both sides. It need not all be done at one stroke of the pen, but by degrees; above all it should be done in proper form, for the Cuban is sensitive and can be led more easily than driven. Whatever the method and whether the result be treaty, alliance or annexation, absolute reciprocity of trade between the United States and Cuba is the only ultimate future tariff policy for the Island of Cuba.

It will be seen that each of these territories occupies a different relationship to the United States, and hence it is impossible to adapt the same tariff policy to all. The effects of free admission from these territories into the United States

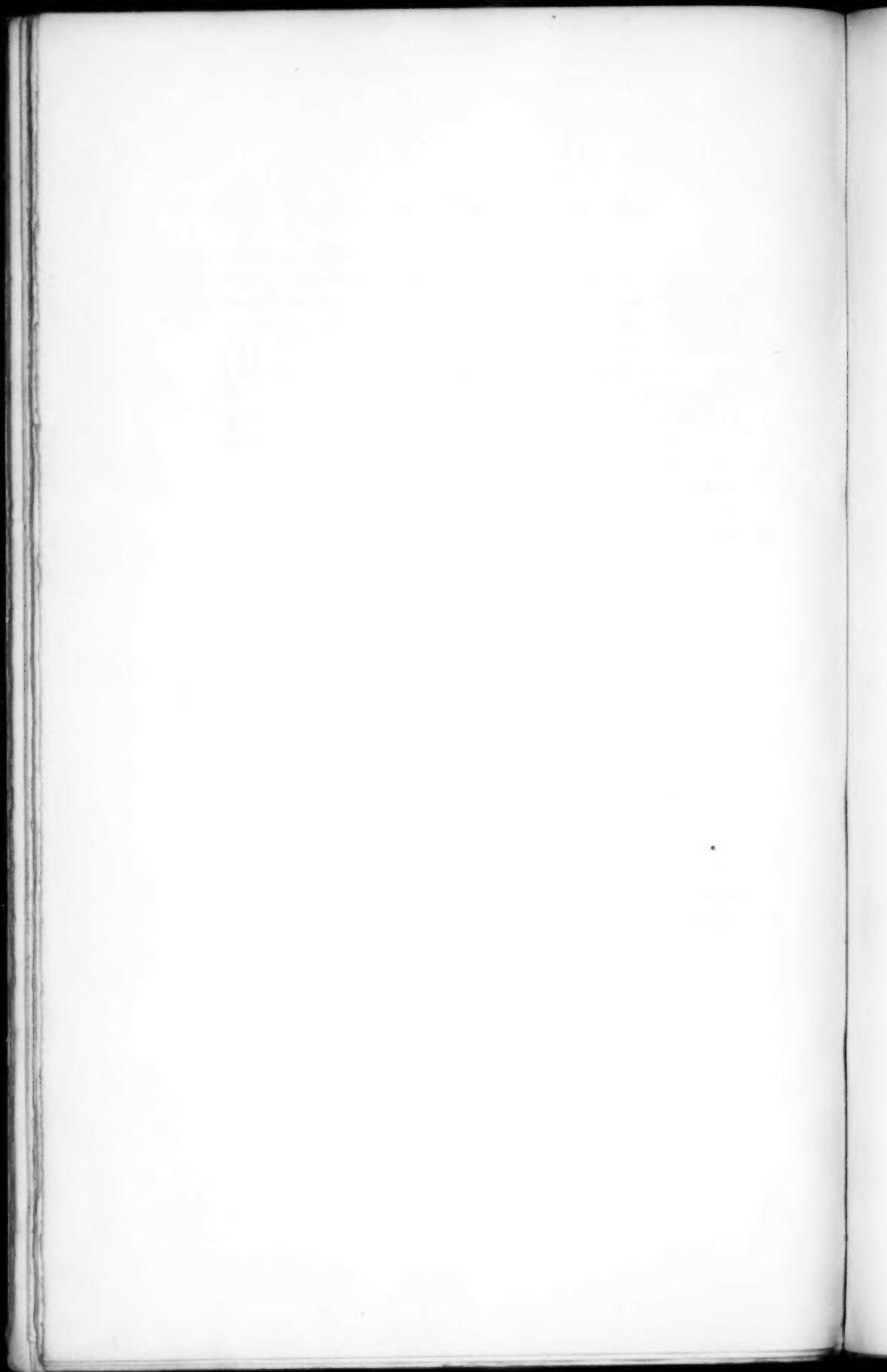
would also differ. In the case of Porto Rico I think it would not materially injure any American industry, as one of the important products of Porto Rico—coffee—is now on the free list, and the quantity of sugar and tobacco produced in that island is small compared with our home consumption. Free trade with Cuba would, as we have seen, result in a modification of our revenue laws and in a migration of our sugar industry. On the other hand, if Cuba became part of the United States and the change were brought about gradually, the hardship would not be as great as some imagine. These industrial migrations are going on all the time both in agriculture and manufacture. The centre of the corn and wheat production to-day is remote from the centre of production of these products a generation ago, so with the manufacture of iron, steel and cotton goods, agricultural implements and many other industries. If Cuba can produce 2,000,000 tons per annum of sugar—and this can easily be accomplished under fair conditions—it practically means another staple industry for the United States. If American capital—and most of the capital invested in Cuban sugar plantations is American—can produce sugar at a profit for two cents per pound on the plantation in Cuba, paying precisely the same wages to labor—the capital will flow in that direction instead of in Louisiana, where the cost of production is at least three cents per pound. This applies with equal force to the production of beet-root sugar. The enterprising men now engaged in sugar production in the United States will be the first to plant their great centrals and sugar factories on Cuban soil. These are some of the problems we must discuss when the tariff relations of the United States with Cuba are finally adjusted. Similar adjustment for the Philippines, besides involving our home industries and labor, brings under consideration the trade problems of the Far East. It will thus be seen that the tariff policy of our new possessions is more than an adjustment of tariffs, and that its permanent settlement involves the reconstruction of

industries as well as of schedules. Of the value of this commerce much has been said and many statistical estimates have been given the public. Cuba, of course, comes first with a grand total of trade for the last normal year (1895) of nearly \$175,000,000. Perhaps, with allowance for smuggling and undervaluations, this total may reach \$200,000,000. Porto Rico should represent \$30,000,000, perhaps \$40,000,000 under good conditions, while the Philippines will aggregate imports and exports, say, \$75,000,000. These totals are capable of great expansion under honest and intelligent trade arrangements, when industrial conditions in the several islands resume the normal state. The aim of the United States should be to secure the large share of the imports to these markets, as to-day the largest share of these products is sold in the United States. Having been called upon to do the practical work in arranging these tariffs, and being under promise to take up the Philippine tariff when those islands resume peaceful pursuits, I hesitate to dwell too much or speak in too glowing terms of the value of this commerce to the United States. United States imports into Cuba during 1899 were distinctly disappointing—less than half the total imports. The first year of industrial freedom for that island shows that on equal terms our competitors make a good showing, while Spain retains naturally a hold that she formerly secured by discriminating duties which favored her imports. Not only must our trade with these territories be secured and maintained by vigorous competition with our commercial rivals, but to greatly enlarge it we must make sacrifices and relinquish hopes at home.



THE NEXT STEPS IN TARIFF  
REFORM ∴ ∴ ∴ ∴ ∴

BY C. R. MILLER, ESQ.,  
EDITOR-IN-CHIEF OF THE NEW YORK "TIMES"



## THE NEXT STEPS IN TARIFF REFORM.

C. R. MILLER, Esq., Editor-in-Chief of New York *Times*.

What is the proposition which the advocates of tariff reform submit to the people of the United States? It is that they hear and determine the question whether the doctrine of protection is of continuing force, and, like the Monroe Doctrine, "applicable to every stage of our national existence;" or whether it is not now time, in our changed industrial conditions, that we sit down to re-examine the basis, the justification and the wisdom of that creed. They ask the American people if the maintenance of the highest protective tariff known to the nations of the earth is to be considered a permanent national policy, or whether they will not now decree a substantial reduction of such duties as shall appear to be no longer necessary to the development of any industry, and the removal altogether of certain taxes on raw material of our industries that raise the cost of production and hamper the efforts of our manufacturers to gain a foothold in foreign markets.

Times change and tariff reformers change with them. During three decades they have championed the cause of the mass of consumers against oppressive laws that bestowed the property of the citizen "upon favored individuals to aid private enterprise." They now make their plea in behalf of the American manufacturer, once the object, now the victim, of protection, whose margin of profit and of opportunity in the world's markets is sensibly diminished by two factors of cost, high wages and taxed raw materials, both peculiar to our industrial system, and of which only the latter is subject to cancellation. The advantage which low wages gives to his foreign competitor he must meet, he has

met, not by wage reductions, but by his genius for economical production, for the standard of comfort established by a high wage rate must be maintained. But the tariff policy which forbids or discourages an exchange of products with other nations and taxes him upon the very materials of his industry is, in the opinion of tariff reformers, unwise, injurious and dispensable. It hampers our industries, checks our commerce, retards the accumulation of national wealth, and diminishes the opportunity for the profitable use of capital and the regular employment of labor.

But when we are asked to indicate the next step in tariff reform we are confronted upon the one hand by a great party that fills quite the whole of the road with its imposing bulk and forbids that any step whatever in tariff reform shall be taken; while the other great party, under new leaders and devoted to other pursuits, has abandoned its ancient attachment to the cause of a tariff for revenue only. It is plain that the next step, like all the steps of the past, must be educational. The chiefs of party must be made to see the light of the new day, and the path to a broader market and richer opportunities must be brought plainly into the view of the great and small captains of industry.

The country has been amazed and made not a little ashamed by the demonstrations of devoted attachment to protection during the debate on the Porto Rican tariff. There are not many protectionists who have taken the long step that brings them near to the advanced position of the tariff reformers. But the President is one of them. It is our plain duty to give Porto Rico the benefits of free trade, said William McKinley in his last annual message. Portentious words, that to many an old-fashioned protectionist must have sounded like an apostate renunciation of the faith by the high priest himself. But the pews outdid the preacher in devotion to the outworn creed, and the Republican House and the Republican Senate have decided that free trade with little Porto Rico, our own adopted child, could not be

enacted without peril to American industries, the representatives of which converged upon Washington with the old appeals if not quite in the old numbers, to protest against the blow that threatened their ruin.

A blind and heedless devotion to protection, too, is exhibited in the strenuous opposition to the ratification of the reciprocity treaty with France, negotiated by President McKinley with the aid of some of his former fellow-workers in high tariff building. A protest against the French reciprocity treaty was recently sent out by the Association of American Knit Goods Manufacturers, in which it was declared that the treaty "aims a death blow" at the fashioned hosiery branch of the knit goods trade, and that "the protection now afforded is no more than is absolutely necessary to a fair protection to our industry." Yet I have the high protectionist authority of the Hon. Robert P. Porter for a counter-declaration, which shall be made in his own words:

"The reduction which the French treaty accords French cotton hosiery and knit goods will in no way harm American industry, because the average rate on all hosiery imported after reductions will still be  $51\frac{1}{2}$  per cent *ad valorem*; because upon the one largest class of hosiery imported from France there will still remain a duty of over 57 per cent, and lastly because upon all goods coming from Germany (whence we get nine-tenths of our imports of cotton hosiery and knit goods), and indeed from all other countries except France the average duty will still be 64.2 per cent *ad valorem*, and on some classes nearly  $71\frac{1}{2}$  per cent. Protection beyond this is unrighteous."

Emotions of unusual joy fill the heart of the tariff reformer, his pulses quicken, and hope kindles anew within him at the unexpected avowal that there is a rate, even though it be  $71\frac{1}{2}$  per cent, above which protection is unrighteous. If the axe of horizontal reduction were laid in that spirit, not at the root, but at the tops of the Dingley tariff,

the earth would be strewn with the brushwood of unrighteous surplusage from many lofty schedules, and the woolen schedule that kisses the very heavens with its audacious rates of 289 per cent, 235 per cent, 195 per cent, and 184 per cent, pierces the blue vault with one lone projection of 379 94-100 per cent and carries an average impost of 86 54-100 per cent, would emerge from the visitation in a truncated and lopped-off condition that would evoke loud cries from the beneficiaries of those sinful taxes.

I shall thrash none of the old straw of the long contention between protection and free trade. If the protectionist points to our immense and growing manufacturing interests that now supply four hundred millions of our exports and says, "This we have built by our tariff," his old antagonist will only ask with due humility that some slight credit be given to the natural resources of the country and the productive genius of its people. He will not forbear, however, to invite the attention of the defender of the high-tariff policy to the influence upon our industrial development and our export trade of the most conspicuous and most deeply interesting economic phenomenon of our day, the amazing multiplication of trusts and great combinations of capital. There is the vital fact in our present commercial situation, there is the greatest creative force at work under present conditions to change the methods and shape the future of manufacturing in the United States. More potent than tariff protection, it has built up industries into which protection failed to breathe the breath of life. Whether this new industrial system be permanent or transitory we cannot say, nor can we say whether the people will conclude that its advent is for good or for evil, but beyond all question, the concentration of capital, the formation of manufacturing corporations with large resources, able to command the highest business ability, to control their business at every stage of its progress, from the source of the material to the distribution of the product, to discard antiquated processes



and install the best modern machinery—we know, I say, that this concentration eliminates waste, obviates needless duplication of effort, substitutes the economy of the large operation for the high expense ratio of the little shop, and effects a substantial lessening of the cost of production. To the reduction of cost thus effected we owe more than to our protective tariff, the immense impulse of development in our manufactures in recent years. And it is this elimination of factors of cost that has enabled our manufacturers, in spite of the high rate of wages, in spite of tariff taxes that are no longer a help, but a burden, to overleap the wall that girdles us about and send their goods out into foreign markets, where they are selling at the rate of four hundred millions a year in competition with the manufactures of Great Britain, of France, and of Germany.

What is it that has quadrupled our production of iron and steel in twenty years—increasing it from 5,000,000 tons in 1880 to 20,000,000 tons in 1899? What is it that has caused our imports of iron and steel to dwindle from \$53,000,000 in 1891 to \$12,000,000 in 1899?

Was it the protective tariff? Seek the answer along that busy highway of lake and rail transportation that connects the Michigan ore beds with the Pittsburg furnaces and rolling mills, or in the Birmingham district, where the coal mines, the coke ovens, the ore beds, and the furnaces are so closely associated that almost the entire transportation charge of the operating companies is for switching engines. Nature in the South and the art of man in the North have reduced the cost of production to its lowest terms. It would be good for the soul of a protectionist who doubts the ability of the American manufacturer to take care of himself to study with care the wonderful array of labor saving and cost saving devices that has been created by the great corporations that convert the ore of Michigan into iron and steel near the coal fields of Western Pennsylvania. Their chain of control is unbroken—the mines, the steam shovels that lift the ore,

the cars, the very railroads, sometimes; the lake steamers, the docks, the smelters and converters, the rolling mills and steelworks, are theirs. No middleman's profit lessens their own, and from the beginning to the end of the chain, economic gain is skillfully secured, arising, says Mr. Taussig, "mainly from consistent planning of every stage, the nice intercalation of operations, the sweeping introduction from end to end of expensive and rapid-working machinery, continuously supplied under homogeneous administration with the huge quantities of material which alone make possible effective and economical utilization of the great plant."

If it is protection that has swelled our production of pig iron 422 per cent from two and one-half million tons in 1872 to eleven and three-quarter million tons in 1898, why is it that almost the entire increase, as Mr. Taussig points out, has been west of the Alleghanies or in the Birmingham region, the Middle States lying east of the Alleghanies, where the shelter of a protective tariff was most essential, and likely to be most stimulating, showing an increase of barely two hundred thousand tons? I asked an iron master the other day, a very large producer, if his business any longer needed the protection of \$4.00 a ton on pig iron. "If it did," he replied, "I should not be now on my way to Europe to sell iron in England, France, Germany, Austria, and Italy." Whatever argument may be made to show that without the favor and encouragement of protective duties capitalists would never have ventured their money in the great plants, transportation facilities, and costly machinery that have produced these results, the truth is plain that our iron trade is now independent of the tariff. It can stand alone, and the business of iron and steel production is industrially fundamental. There is no large manufacturing business in which a low price of iron and steel is not reflected in reduced cost of production. I am speaking, of course, of normal trade conditions, not of the extraordinary condition that has

prevailed for some months past in which an iron and steel famine, due to an unusual volume of orders has had the effect of doubling prices.

I now wish to adduce further evidence of important industrial growth in the United States independent of the tariff, yes, in spite of the obstacles it opposes. The great increase in our exports of manufactures in recent years has resulted from two conditions, large production and low prices. In the first place, we have had surplus goods to sell; in the second place, our prices were satisfactory to the foreign buyer. Why were our industries so productive, why were prices so low?

Again the stern finger of fact points to the concentration of capital and ability as the chief cause of both phenomena. Concentration increases capacity and diminishes cost. An oversupply of the home market and an overflow into the foreign market follow necessarily. Our exports of manufactures in the fiscal year ending 1899 reached the unprecedented total of \$338,667,794. Of this export of manufactures three-fourths in value were the products of industries dominated or controlled by trusts and combinations of capital. They tell us that it is the Dingley tariff that has raised our exports of manufactures to this great figure, amounting in the last fiscal year to 28.13 per cent of our entire export trade. Why not look the facts in the face? The tariff may glut the home market, but the tariff does not make low prices—there are no economies in it. It is saving of cost that makes the price, and the price makes the market.

Take another point of view. How many years is it since we began to congratulate ourselves upon the sudden prominence of manufactures in our tables of exports? Only during the last four years, and those are the years that have witnessed the formation of nearly all the trusts and combinations, the certificates of corporation of five-sixths of which bear a date later than 1895. Manufactured exports increased from \$126,000,000 in 1875 to \$183,000,000 in 1895—twenty

years to gain fifty-seven millions. For the five succeeding fiscal years the figures are: 1896, \$228,571,178; 1897, \$277,285,591; 1898, \$290,697,354; 1899, \$338,675,558; and for the current year ending June 30 next \$400,000,000, according to the estimates—five years to gain \$172,000,000. The trusts and the Dingley tariff came hand in hand, of like age, and devoted to like pursuits—the promotion of our productive industries.

An impartial world will judge which of the two has been the more effective and influential in doubling our exports of manufactured merchandise in four years. But it is a barren futility to point out these conditions unless we are willing to read what they teach and profit by the lesson. It is of no avail to lay stress upon the significant coincidence between the sudden growth of our export of manufactures since 1895 and the sudden multiplication of trusts and combinations in the same period, nor does it profit us to adduce that other highly significant piece of testimony, the fact that three-quarters of these exports are the products of industries under the dominance of associations of capital, unless we heed the answer to the next question. What do these things mean?

They mean that we have entered upon a new period in our industrial history, and that new economic conditions must be recognized in our laws and in our trade customs. Mr. Richard Olney in his striking and philosophical article on "The Growth of Our Foreign Policy" says that prior to the late Spanish war there were two distinguishing manifestations of our policy toward other countries: "One of them was the Monroe Doctrine, so called, directly affecting our relations with foreign powers. The other was a high protective tariff aimed at sequestering the home market for the benefit of home industries and, though legally speaking of merely domestic concern, in practical results operating as the most effectual of obstacles to intercourse with foreign peoples."

Out of this condition of aloofness and sequestration we have emerged so abruptly that few of our lawmakers and not many of our people have been able to adjust their thinking to the large requirements of the new condition. We have come suddenly into full relations with the world and have not had time to put aside our homespun manners or don clothing fit for such grand company. We are giving a lawn party but have forgotten to take down the sign "Keep Off the Grass."

Wherever in these years of trade expansion we have sold manufactured goods in other markets, we have displaced a foreign competitor, either one actually in possession or one seeking to take possession. The weapon with which we have overcome him is low prices. Quality and other things being equal, the lowest price commands the market. Our manufacturers have been able to make a low price through labor-saving inventions and reductions in cost effected by concentration of industrial forces. But what are our foreign competitors going to do, the manufacturers of England, France and Germany, whom we have robbed of a part of their market? Believe me, they will not give up the fight, they will do something to regain the lost ground. And on what they do hangs immediately the prosperity of our export trade in manufactures, and next the fate of our Dingley tariff. The foreign manufacturers will fight us with our own weapons—low prices. Skillful methods and a better understanding of the wants of their customers in the East, in Africa, and in South America, will serve them to some extent, but in the broad sense nothing will help them to reconquer the lost territory but the ability to undersell us. It is not for us to inquire by what economics the foreign manufacturer will command this ability. It is vastly more important for us to take thought about our own condition. Baffled by our old competitors using the arm of low prices to which they have long been accustomed, and by which they have, until recent years, kept us altogether out of many

fields, what shall we do? There is but one resource—we must make lower prices, we must undersell our competitors or lose the market. But how can we reduce prices?

The trusts and combinations have well nigh exhausted the resources of boundless capital, of human skill, and business ability in saving the last fraction of a cent of cost at every stage of every process they control. Their peculiar relations with railroads have enabled them to command the lowest living rates for transportation of their products to the seaboard. You cannot reduce an irreducible minimum. There are three other possible sources from which the potentiality of lower prices may be gained. They are, first, the pay roll—that is wages; second, the profits of capital, and third, the cost of material. The American manufacturer is most reluctant to seek to make himself whole at the cost of his men. He knows that wages are higher in this country than in any other in the world. He is painfully aware of the immense advantage that low wages, pauper labor, as we call it, confer upon his foreign competitor. But he knows, too, that well paid labor and a high standard of comfort for workingmen make for good citizenship and increase the demand for consumption in our home market. A reduction of wages is the last resource against business loss and then only as the alternative to shutting down the works.

But there is the profit account. I need make no argument to convince you that the manufacturer will turn with no great gayety of heart to the expedient of reducing his own dividends. The changeless principles of human nature and the powerful instinct of self-preservation stand opposed to that so long as any other way is open. There is another way, the third resource—reduction in the cost of material.

In that anxious moment of his quest for relief, there rises upon the vision of the hard-beset American manufacturer the towering heights of the Dingley schedules, not glory crowned, not glistening in the sunlight of prosperity, not singing Memnonian psalm tunes of cheer in his complacent ears,



but beetling, black, disastrous; obstacles to his progress, the menace of his ruin. God help the protective tariff when the American manufacturer shall confront it in that terrible mood. But as I wished to make the suggestion of the remedy follow immediately upon the diagnosis of the disease, I have omitted one stage in this process of economic development—the dark and saddening stage of industrial depression, waste of capital, stagnation, and hard times that follow inevitably upon the loss of a market and the cessation of a demand. When our manufacturers begin to find themselves in turn displaced in their new-found foreign markets by cheaper goods made in Germany and elsewhere, they will not at once go to Washington to get the tariff reduced. Hope springs eternal, and hoping for a favorable turn, they will continue to run their mills on full time and to pile up unsold goods in the warehouses. Overproduction has one inevitable result—business loss. Let any man with the material of the computation at his command attempt to picture forth the condition of trade stagnation, financial depression, contraction of credits, and business disaster that would ensue upon the cutting off at the seaboard of any considerable part of the annual outflow of four hundred millions of our manufactured goods.

Through this stage of industrial gloom we must pass in the nature of things before our producers come to understand what has hurt them, what hampers them, and puts them at a disadvantage in the struggle for the possession of the foreign market. Then, at length, when the interests that once demanded protection and made the tariff shall appear imploring relief from its burdens and asking for freedom to buy where they must sell, in the broad markets of the world, then we shall be ready for the next step in tariff reform, and it will be quickly taken.

If apprehension is expressed that industries laboriously built up by the favor of protection until they have come to possess the semblance of a vested right to a duty approach-

ing or exceeding the unrighteous level of 71 per cent will be ruined by a free trade foray on the tariff, I reply that no uneasiness need be felt. The influence of the protectionist sentiment is still too powerful at Washington over both parties to permit any abrupt and ruthless demolition of the tariff shelter. The danger is indeed of a too great reluctance, of a reform too deliberate in its movement. Against reductions demanded for the support of manufacturing interests that have shown energy and capacity for development, that have made them important contributors to the national wealth the plea in behalf of imbecile helplessness will not and should not avail. It is protection that is now demanded, protection for the American manufacturer against oppressive conditions that threaten his exclusion from the foreign market, upon which his prosperity depends; protection for the American workingman against the reduction of his wages, a calamity that will surely befall him if it be not averted by provisions made in other ways for the manufacturer's relief. How can the experienced protectionist campaigner, who, though grizzled, bronzed and scarred, has within his bosom a heart that beats warmly for our struggling industries and for the American wage-earner, how can he resist the insistent appeal of his own protégés for needed help? The growth of our manufactured exports, whatever it may argue for the past of protection, destroys the argument for its future, for it demonstrates that we have established for the products of our industries a parity of price with foreign products. We are equals, and an equal demands no favors.

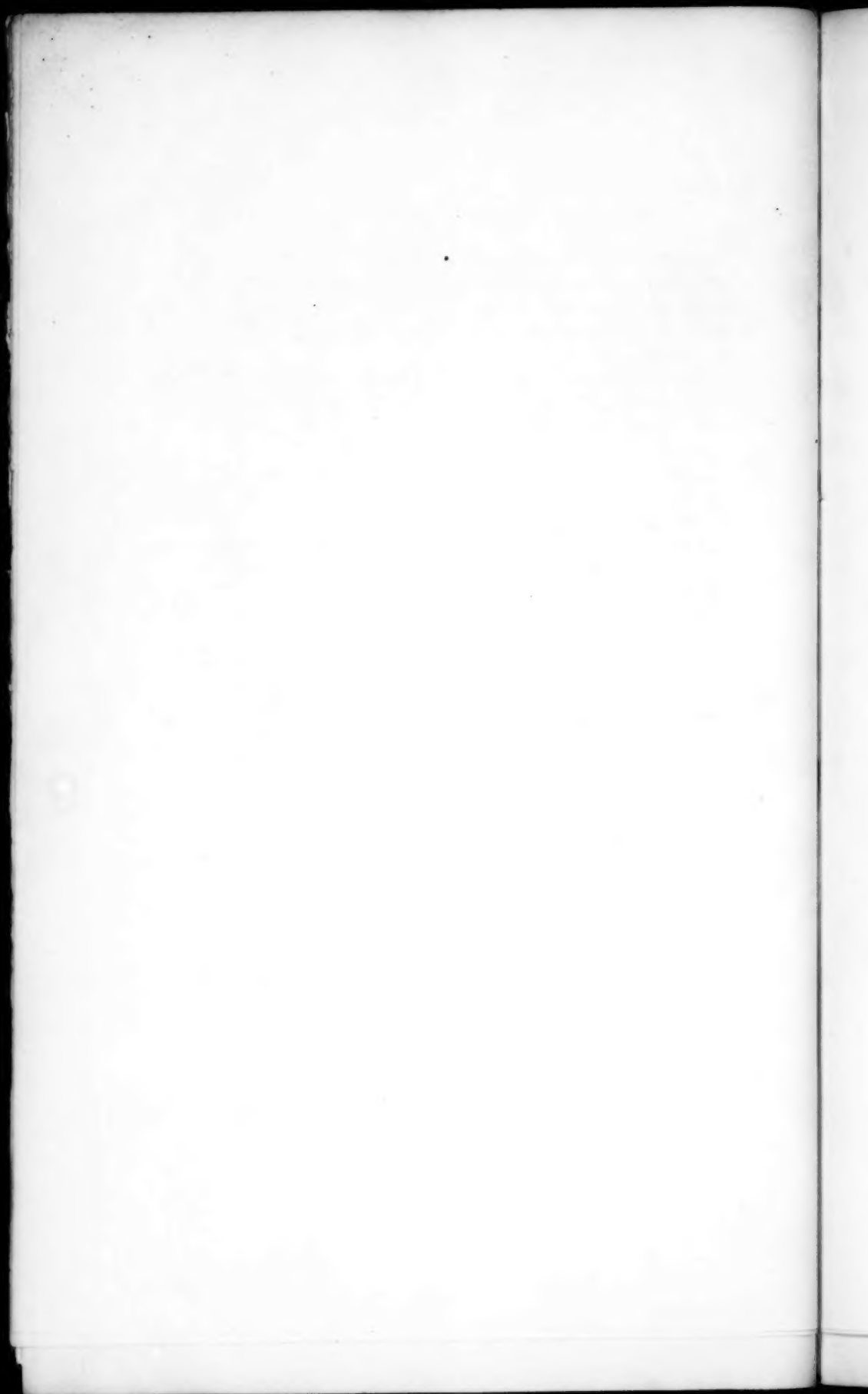
He has the right, however, to demand, and he will insist that his friends do not wantonly hamper him in his contests. The American manufacturer must have for his own protection, in his struggle with foreign competitors, the freedom to buy the materials of his industry, not only in the cheapest market without artificial additions to cost, but he must have perfect freedom to choose his market. The skillful merchant

is equipped with modern facilities which enable him to know from hour to hour the quotations in all the great markets of the world. He might as well be without the facilities if he cannot have freedom to use for his gain the information they bring him.

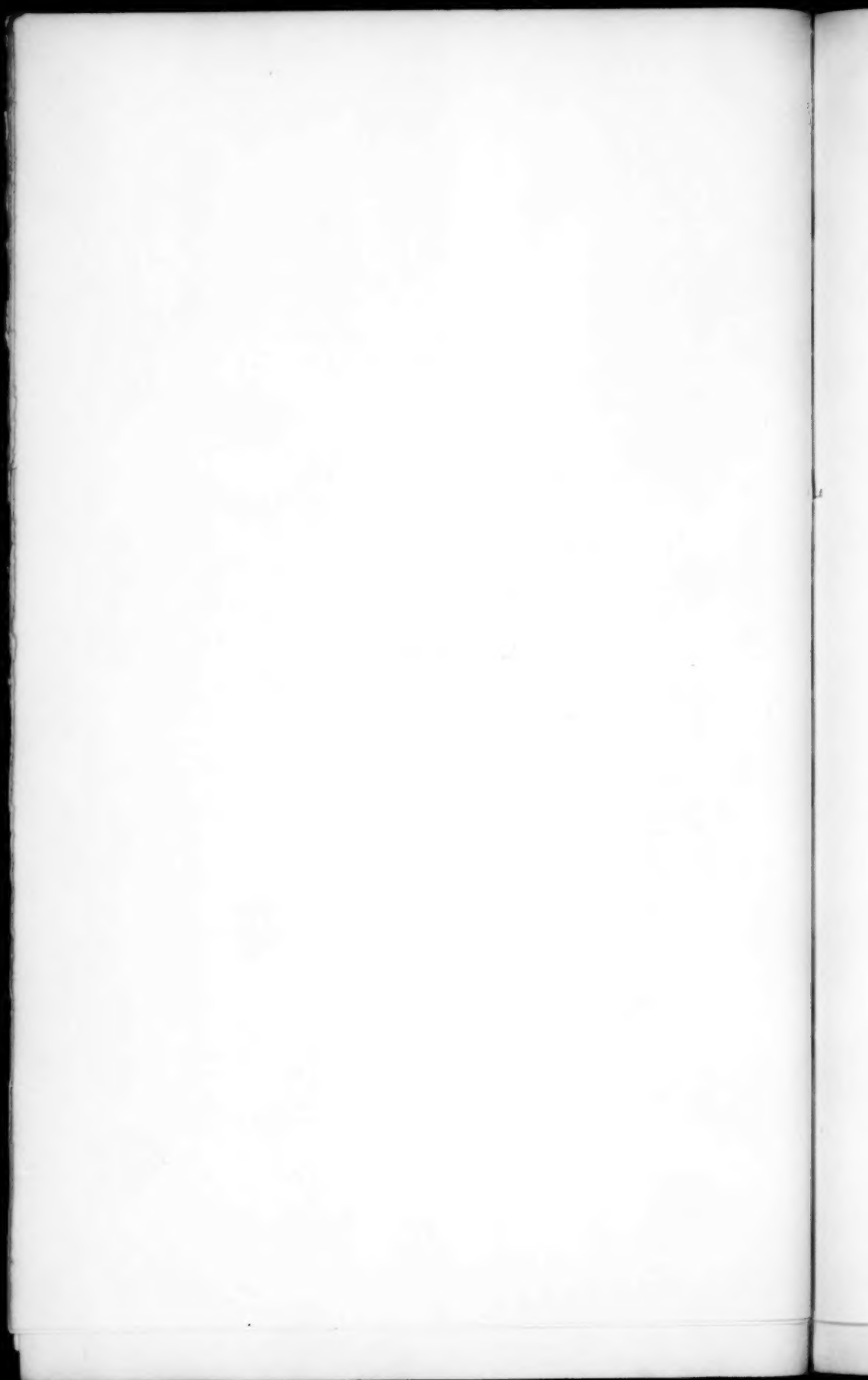
Those schedules of the tariff that put an added cost upon crude articles entering into the processes of manufacture, and on articles partly manufactured, that are the raw materials of other manufactures which give profitable employment to labor, are the lamb of the sacrifice. Upon them the manufacturer is going to ask that the hand of the reviser be laid. The people will ask somewhat loudly that it be laid also upon every duty in any schedule giving protection to a greedy trust or combination of which advantage is taken unduly to raise prices.

There need be no fear about the revenue. That old cry has lost its potency since the business of the country has demonstrated its capacity to yield three hundred millions of internal revenue, a tribute which it could increase without complaining of the burden; while the judicious reduction of the tariff schedules to the revenue point would provide the treasury with abundant income from customs derived from luxuries and those classes of imports upon which a just system of taxation permits a moderate impost.

But the first step, the step immediately before us, is a completion of the educational process. The manufacturer will finish his education before the statesman and the politician are out of the primary class. Hard necessity will be his teacher, and the pupil will learn with a surprising rapidity when his attention has been once fixed upon the instructive page. Some precocious scholars are even now ready for graduation.



APPENDIX.





FOURTH ANNUAL MEETING  
OF THE  
American Academy of Political and  
Social Science.

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“CORPORATIONS AND PUBLIC WELFARE.”

The success of the Third Annual Meeting of the Academy, at which was discussed: “The Foreign Policy of the United States, Political and Commercial,” placed a heavy responsibility on the Committee to make the Fourth Annual Meeting equal its predecessor, both in importance and interest. The plan of selecting a subject which is in the foreground of public discussion has so fully justified itself that it is unnecessary to comment on the selection of the topic for this year's meeting. Throughout the country the growing influence of corporations on industrial and political life is being discussed and made the issue of local and national political campaigns. It is, therefore, of the very greatest importance to the continued stability of our institutions that the judgment of the people on these fundamental questions should be formed after the most thorough presentation of facts without party bias or personal interest. It is this function which the Academy is called upon to perform. With our large membership, the material presented and the opinions expressed at our Annual Meetings reach a far wider audience than is usually influenced by similar gatherings of other organizations. The plan of publishing the proceedings in full at the lowest possible cost adds greatly to the value of these meetings and to their influence in the formation of public opinion.

The Fourth Annual Meeting included four sessions, held on the afternoon and evening of Thursday, April 19, and Friday, April 20. Thursday afternoon, April 19, was devoted to a discussion of "The Control of Public-Service-Corporations." Professor L. S. Rowe, of the University of Pennsylvania, presided and presented the opening paper on "The Possibilities and Limitations of Municipal Control." Hon. Bird S. Coler, Comptroller of New York city, gave an address on "The Control of Public Service Corporations. Financial Control—Capitalization;" Professor John H. Gray, Northwestern University, Evanston, Illinois, on "Difficulties of Control as Illustrated in the History of Gas Companies;" Dr. Frederic W. Speirs, of Philadelphia, on "Regulation of Cost and Quality of Service as Illustrated by Street Railway Companies."

The session of Thursday evening was devoted to the Annual Address, which was delivered by the Hon. William Lindsay, United States Senator from Kentucky, on "The Influence of Corporations on Political Life." Professor S. M. Lindsay, of the University of Pennsylvania, Vice-President of the Academy, was in the Chair.

Before introducing the speaker, Professor Lindsay commented on the growth of the Academy. He called attention to the fact that the last report of the Board of Directors of the Academy presented at the Annual Business meeting in January showed that the Academy was in a prosperous condition.

"Twenty-three hundred members are on our rolls, and we close the last fiscal year with a surplus of \$1,800 in the Treasury. Bulletin No. 12 (new series) has been sent to members of the Academy and contains the audited statement of the Treasurer. The general report of the Directors on the work of the Academy has not yet been printed. There has been no diminution in quantity nor quality of the publications of the Academy. The fourteen volumes of the ANNALS with their supplements constitute the best single source of

information now available in English for students of economics, sociology and politics. Libraries, study clubs and reading circles are coming more and more to realize this fact.

"With the increasing perplexities of our political, social, and economic problems the demands upon the Academy are sure to increase. Our responsibility for educational work based on broad scholarship and wide social sympathies must also increase. Each member may well be proud of an organization so well grounded in social service as the Academy after a single decade of existence, but each should also realize that all that has been accomplished is not the result of the efforts of any one leader or small group of men, but of the combined efforts of hundreds of our members, who are at all times loyal in their support and in their personal endeavors to bring the work of the Academy to the attention of those whom it may interest and benefit.

"The Committee on Meetings met with no little difficulty in deciding upon the orator of this occasion. The topic of the Annual Address: 'The Influence of Corporations on Political Life,' demanded that we should secure for its adequate and impartial treatment the services of one who neither owned nor was owned by a corporation, and furthermore one who by legal training and large experience in public life could speak from close observation and experience. We know that you will all agree with us that no happier embodiment of all of these requisites could be presented than in the person of the distinguished Senator from Kentucky, Hon. William Lindsay, whom I now have the pleasure of introducing."

After the meeting a reception was tendered to Senator Lindsay and other guests of the Academy.

On Friday morning, April 20, the members of the Academy and guests visited the various departments of the University of Pennsylvania. Arrangements had been made to conduct the party through the various buildings. At one o'clock luncheon was served at the Manufacturers' Club,

at which a considerable number of our members were present, and an opportunity offered for an informal discussion of many matters of Academy interest.

The third session, on Friday afternoon, April 20, was devoted to the subject of "Combination of Capital as a Factor in Industrial Progress." In the absence of the presiding officer, the Hon. Thomas W. Phillips, First Vice-Chairman of United States Industrial Commission, Mr. Theodore Marburg, of Baltimore, consented at short notice, to take Mr. Phillips' place. The opening address was delivered by the Hon. James B. Dill, of New York City, on "Industrials as Investments for Small Capital." Hon. John Wanamaker spoke effectively on "The Evolution of Mercantile Business," and William H. Baldwin, Jr., President of the Long Island Railroad, on "The Interest of Labor in the Economics of Railroad Consolidation."

The final session was held on Friday evening, April 20, at 8 p. m., in the New Century Drawing Room, Charles Custis Harrison, LL. D., Provost of the University of Pennsylvania, in the chair. The general subject of the session was "The Future of Protection." The addresses delivered were by the Hon. Nelson W. Aldrich, United States Senator from Rhode Island, on "The Industrial Ascendency of the United States;" Hon. Robert P. Porter on "The Tariff Policy of Our New Possessions," and Charles R. Miller, Editor-in-Chief of the *New York Times*, on "The Next Steps in Tariff Reform." At the close of the meeting the Manufacturers' Club tendered a reception to the speakers of the Academy, to which all members were invited.

It will thus be seen that in addition to the scientific sessions, ample opportunity was given for the members of the Academy to become acquainted with one another, and your committee feels that this meeting has contributed considerably to the development of a distinctive Academy spirit which is certain to be productive of great good.

We wish to take this opportunity to express to the Provost

and authorities of the University of Pennsylvania, and to the President and Directors of the Manufacturers' Club, the sincere appreciation of the Academy for their hearty co-operation in the arrangements for the meeting.

The expenses of the meeting, which were beyond what the treasury of the Academy could bear, were defrayed in large part by previous arrangements for the sale to business men and corporations of large numbers of the volume containing the proceedings. To all those who have so generously come to the support of the Academy your Committee on Meetings desires to express its sincere thanks.

In conclusion, your Committee desires to record the other scientific sessions of the Academy held during the interval between the third and fourth annual meetings, as follows:

October 25, 1899, Sixtieth Scientific Session, Mr. John H. Converse in the chair.

*Addresses.*—Hon. Frederic Emery, Chief of the Bureau of Foreign Commerce, State Department, Washington, D. C., on "International Rivalry in Trade;" Hon. John A. Cockburn, Agent-General in London and formerly Premier of South Australia, on "Recent Extension of the Sphere of State Activity;" Hon. W. Pember Reeves, Agent-General of New Zealand, on "Arbitration in Labor Disputes."

December 14, 1899, Sixty-first Scientific Session, tenth anniversary meeting, Joseph G. Rosengarten, Esq., in the chair.

*Subject.*—"The Economic, Political and Social Movements of the Past Decade."

*Addresses.*—Professor R. T. Ely, Wisconsin University, on "Progress in Economic Theory and Instruction in Universities during the Past Ten Years;" Henry Jones Ford, Esq., Pittsburg, on "The Political Movements of a Decade;" Dr. F. W. Speirs, Philadelphia, on "Social Movements of a Decade."

January 11, 1900, Sixty-second Scientific Session, Professor L. S. Rowe in the chair.

*Addresses.*—Hon. Frederick W. Holls, member of the Peace Conference at the Hague, and Secretary of the American Delegation, on "The World's Progress Towards Peace as Illustrated by the Conference at the Hague;" Professor John Bach McMaster, University of Pennsylvania, on "Some American Experiments in Arbitration;" Russell Duane, Esq., on "Legal Aspects of Arbitration."

The thanks of your Committee on Meetings, and through it those of the Academy, are due and hereby expressed to the speakers who, at our various meetings throughout the year, have given so generously of their time and services without compensation; also to the following members of the Ladies' Reception Committee, who have added so much to the social features of our meetings: Mrs. Charles Custis Harrison (chairman), Mrs. De Forest Willard (vice-chairman), Mrs. John H. Converse, Mrs. Stephen W. Dana, Mrs. Eugene Ellicott, Mrs. Roland Post Falkner, Mrs. Adam H. Fetterolf, Mrs. William A. Lamberton, Miss Jessica England Lindsay, Mrs. Samuel McCune Lindsay, Mrs. John Bach McMaster, Mrs. Joseph P. Mumford, Mrs. Edward M. Paxson, Mrs. William W. Porter, Mrs. Henry Rogers Seager, Mrs. Cornelius Stevenson, Miss Susan P. Wharton, Mrs. Talcott Williams, Mrs. Owen Wister, Mrs. Clinton Rogers Woodruff; and finally, in many special ways, to Dr. Charles Custis Harrison and to Joseph G. Rosengarten, Esq., for their assistance in carrying on the work of this Committee.

Respectfully submitted,

S. M. LINDSAY,  
*Chairman.*

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# CORPORATIONS AND PUBLIC WELFARE

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Addresses at the Fourth Annual Meeting of the Amer-  
ican Academy of Political and Social  
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**Supplement to Volume IX.** *Handbook of the Academy.* Pp. 84. \$1.00.

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**Volume XI. Three numbers (January-May).** Pp. 464, with Supplement, Pp. 558.

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